



September 20, 2023

Company Name: Sun Frontier Fudousan Co., Ltd.
Representative: Seiichi Saito,
President and Representative Director
(Stock Code: 8934, TSE Prime Market)
Inquiries: Takeshi Hirahara,
General Manager of
Corporate Planning Department
TEL: 03-5521-1551

Notice of Offering of 1st Series Unsecured Convertible Bonds with Share Acquisition Rights to be Issued Through Third-Party Allotment

Sun Frontier Fudousan Co., Ltd. (the “Company”) hereby announces that today its Board of Directors resolved to conduct an offering of convertible bonds with share acquisition rights (the “Bonds with Share Acquisition Rights,” and the bonds thereof are hereinafter referred to as the “Bonds,” and the share acquisition rights attached thereto are hereinafter referred to as the “Share Acquisition Rights”) to be issued through a third-party allotment. The details are described below.

Please also refer to the “Notice of Business Alliance” dated today.

1. Overview of Offering

1st Series Unsecured Convertible Bonds with Share Acquisition Rights

(1) Due date of payment	October 6, 2023
(2) Total number of share acquisition rights	49 acquisition rights
(3) Issue price of Bonds and Share Acquisition Rights	The issue price of each bond is 204,488,160 yen (100.2 yen per 100 yen of the face value; the face value of each bond is 204,080,000 yen) However, no payment in exchange for the Share Acquisition Rights is required.
(4) Number of dilutive shares resulting from issuance	6,434,900 shares A conversion price adjustment will not be conducted with respect to the Bonds with Share Acquisition Rights, so there is no maximum conversion price or minimum conversion price.
(5) Amount of funds to be procured	10,019,919,840 yen (estimated net proceeds: 9,999,318,200 yen)
(6) Exercise price or conversion price	1,554 yen per share
(7) Method of offering or allotment	By way of third-party allotment
(8) Scheduled allottee	AAGS S5, L.P.
(9) Other Matters	The Company will agree to the following matters with respect to the conversion, exercise, and transfer of the Bonds with Share Acquisition Rights and the Share Acquisition Rights in the subscription agreement (the “Subscription Agreement”) to be executed with AAGS S5, L.P. (the “Scheduled Allottee”) on September 20, 2023. (i) In principle, the Scheduled Allottee may not exercise the Share

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

	<p>Acquisition Rights within one year from the Closing Date.</p> <p>(ii) In principle, the Scheduled Allottee may make a request for the exercise of the Share Acquisition Rights only if the closing price of regular trading of common shares of the Company for the business day immediately preceding the day on which the request for the exercise of the Share Acquisition Rights becomes effective is not less than the amount obtained by multiplying the conversion price which is effective on the day on which the Scheduled Allottee intends to make a request for the exercise of the Share Acquisition Rights by 1.20.</p> <p>(iii) The transfer of the Bonds with Share Acquisition Rights by the Scheduled Allottee requires approval by resolution of the Board of Directors of the Company.</p> <p>(iv) If the Scheduled Allottee transfers the shares acquired through the conversion of the Bonds with Share Acquisition Rights through off-market trading (excluding trading in which the purchaser is unidentifiable, such as PTS trading or off-floor trading), the Scheduled Allottee will not transfer such shares to certain competitors designated by the Company or to activists without the prior written approval of the Company.</p> <p>(v) In addition, the details of the following matters will be specified in the Subscription Agreement. For further information, please refer to “(5) Lockup and First Refusal Right under “6. Reason for Selection of Scheduled Allottee, Etc.” below.</p> <p>- Lockup and first refusal right</p>
--	---

2. Purpose of and Reasons for Offering

Founded in 1999, this year our corporate group is approaching its 25th anniversary. Since its founding, the corporate group has consistently upheld “Altruism” (i.e., a mindset that places the highest priority on how much one can contribute to people and society through one’s work throughout life, and a spirit of consideration for others) as our corporate moto, and the corporate group has strived to manage itself with the philosophy of “Protect all employees, pursue the material and intellectual happiness, with the heart of coexistence we contribute to the prosperity of society and humankind.” In particular, the corporate group is continuing to focus its efforts toward solving three important issues for realizing a sustainable society (materiality): “environmental protection,” “regional revitalization,” and “human resource development.”

Over the last several years, the promising and talented individuals in our corporate group have grown by overcoming the global financial crisis and the coronavirus pandemic, and as there is approximately a year and a half remaining in the current mid-term management plan, which will end in the fiscal year ending on March 31, 2025, the corporate group is aware that now the time has come to accelerate our growth strategy for the future while also drawing up our next mid-term management plan.

The business of our corporate group is comprised of the following four segments. First, we have the “Real Estate Revitalization Business” and the “Real Estate Service Business,” which aim to conduct urban development through the revitalization and efficient use of existing real estate. Next, we have the “Hotel and Tourism Business,” which is tied to the promotion of regional development. Finally, the overseas development and management business, construction business, and the like fall under our “Other” segment. In the midst of these segments, while our original “Real Estate Revitalization Business” has high social significance from both an environmental and economic perspective, the “Real Estate Service Business,” which serves as a platform, enhances our customer base, and the synergy between these two businesses will result in the corporate group further expanding our existing businesses, which have established pioneering positions. At the same time, the corporate group will meticulously and boldly take on challenges for new businesses in the field. In addition, the “Hotel and Tourism Business,” which engages in our hotel development and management businesses, is aiming to have 10,000 guest rooms in operation in the next 10 years, through the further refinement of the business hotels the corporate group established through success

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

in its past challenges and by improving our “heartwarming and fun hotel” brand. Furthermore, we will deepen the possibility of growth opportunities through M&A in all of our business segments. Through these policies, we are endeavoring to grow the businesses of the corporate group and improve our market competitiveness while also continuing to find solutions to the important issues mentioned above.

In order to steadily advance each of the abovementioned measures, the corporate group believes that procuring investment funds and M&A funds for the hotel development business and others will be necessary, and also that acquiring a high level of external professional support will be effective. Under these circumstances, the corporate group has received a proposal from Advantage Advisors Co., Ltd. (Address: Toranomom Towers Office 4-1-28 Toranomom, Minato-ku, Tokyo; Representative Director: Taisuke Sasanuma) (“Advantage Advisors”) regarding a business alliance with the corporate group in which Advantage Advisors would provide information, introduce clients, and provide business support as well as procure financing through third-party allotment for funds for which Advantage Advisors provides services. After careful consideration of Advantage Advisors’ extensive track record in dealing with listed companies and the specifics of their proposal, the corporate group has determined that the proposal from Advantage Advisors is the most appropriate in order to improve the corporate value of the corporate group, because it can receive from Advantage Advisors growth support consistent with the corporate group’s mission and needs when tackling the management issues of which the corporate group is aware, and because the corporate group considers the issuance of the Bonds with Share Acquisition Rights by way of third-party allotment as stated below in the “Reasons for selecting financing through bonds with share acquisition rights” section in “2. Specific use of funds to be procured” under “3. Amount of funds to be procured, purpose of use, and scheduled timing of expenditure” to be the most appropriate fundraising method. Therefore, the corporate group has resolved to conduct the financing through a third-party allotment and to execute a business alliance agreement with Advantage Advisors. The corporate group believes that, by receiving various support from Advantage Advisors through the use of the management know-how, networks and the like held by the Advantage Advisors group including Advantage Advisors, it will be able to steadily promote each of the abovementioned measures and also be able to realize its management philosophy and increase its corporate value. Specifically, the corporate group expects to be able to receive growth support such as management support in the form of searching functions and enhanced examination process of M&A candidates, supply of personnel with a high level of expertise and experience, establishment of various measures, and execution of those measures jointly with the corporate group.

Please also refer to the timely disclosure “Notice of Business Alliance” dated today for the details concerning the business alliance.

3. Amount of funds to be procured, purpose of use, and scheduled timing of expenditure

(1) Amount of funds to be procured (estimated net proceeds)

Total amount to be paid in (yen)	Estimated amount of issuance costs (yen)	Estimated net proceeds (yen)
10,019,919,840	20,601,640	9,999,318,200

- Note:
- Consumption taxes and the like are not included in the estimated amount of issuance costs.
 - Issuance costs are mainly comprised of attorney’s fees, expenses for investigating anti-social forces, expenses for evaluating the bonds with share acquisition rights, fiscal agent fees, registration and license taxes, other administrative expenses (printing service expenses, registration expenses), and the like.

(2) Specific use of funds to be procured

In respect of the 9,999,318,200 yen of the abovementioned estimated next proceeds, the funds for (i) the acquisition of land in conjunction with new hotel development and construction work investment and (ii) M&A funds primarily for the hotel development business and construction business are scheduled to be allocated by no later than March 2026; the breakdown of such funds is as follows.

Until their actual expenditure, the procured funds will be invested and retained in secure financial assets such

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

as the bank deposits of the Company.

Specific use of funds	Amount (Millions of yen)	Scheduled timing of expenditure
(i) Acquisition of land in conjunction with new hotel development and construction work investment	8,000	October 2023 to March 2026
(ii) M&A funds primarily for the hotel development business and construction business	1,999	October 2023 to March 2026

Use of proceeds

As stated above in “2. Purpose of and Reasons for Offering,” the corporate group mainly performs the “Real Estate Revitalization Business” and the “Real Estate Service Business,” which aim to conduct urban development through the revitalization and efficient use of existing real estate, as well as the “Hotel and Tourism Business,” which is tied to the promotion of regional development. However, in order to steadily advance these measures for the future while also drawing up our next mid-term management plan, the corporate group believes that procuring investment funds and M&A funds for the hotel development business and others will be necessary. Accordingly, the corporate group will allocate the funds procured by the issuance of the Bonds with Share Acquisition Rights to the following uses.

(i) Acquisition of land in conjunction with new hotel development and construction work investment

For sustainable future growth, Sun Frontier Hotel Management Inc., a consolidated subsidiary of the Company, develops and operates hotels throughout Japan. Its basic business model is to obtain development profits by selling the real estate after operating the hotels for a certain period of time, and then continue to operate those hotels by way of leaseback to obtain operational income. It is already progressing with hotel development in places like Ishikari-shi, Hokkaido, Sakata-shi, Yamagata, Fujikawaguchiko-machi, Yamanashi, Hakone-machi, Kanagawa, Atami-shi, Shizuoka, Ozu-machi, Kumamoto, and Ishigaki-shi, Okinawa, and going forward will make progress in hotel development in other regions as well. In order to realize the foregoing projects, the Company will allocate approximately 8,000 million yen through financing to Sun Frontier Hotel Management Inc. as a part of the expenses for acquiring land, construction work, and the like.

(ii) M&A funds primarily for the hotel development business and construction business

The corporate group is always searching for business opportunities through M&A in which the operating results of its existing hotels will be further increased through added value based on its own management ability. It fully scrutinizes promising transactions from a risk and return perspective, and proactively and aggressively tackles those transactions. In addition, for the Real Estate Revitalization Business which is the corporate group’s main business and in which the corporate group acquires small and medium-sized office buildings, raises rents and operation rates by increasing the value of those buildings, increases earning power, and ultimately sells those buildings, the corporate group is establishing its internal value chain within the group in relation to a series of services from the purchase of buildings to the revitalization of, attraction of tenants for, and management after the sale of, those buildings. Therefore, further enhancement of the value chain by the reinforcement of the construction business through M&A is one of the corporate group’s vital strategies for increasing returns. As stated above, the corporate group will allocate 1,999 million yen as investment funds to these target businesses (however such allocation will not be limited to those two businesses) in order to continuously and flexibly examine M&A transactions. With respect to such M&A investment funds, the corporate group will respectively allocate M&A funds for the Hotel Development Business to Sun Frontier Hotel Management Inc. through financing from the Company thereto and M&A funds for the construction business to the Company. No specific M&A transaction is planned at this moment. If Sun Frontier Hotel Management Inc. or the Company do not execute M&A transactions in such amount as set out above within the scheduled

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

allocation period described above, the corporate group will allocate additional funds for the uses stated in Item (1) above.

Reasons for selecting financing through bonds with share acquisition rights

In securing the funds necessary for further business expansion and increased earning power, the Company examined a number of financing methods. As a result, the Company concluded that the issuance of the Bonds with Share Acquisition Rights by way of third-party allotment is the most appropriate financing method for the following reasons.

- (i) In the case of financing through issuing new shares by way of public offering or third-party allotment, while it is possible to complete financing by issuing new shares at the same time and without requiring redemption, because the number of issued shares immediately increases, there is a possibility that such method may have a significant impact on the share price. On the other hand, because financing through issuing convertible bonds with share acquisition rights does not immediately dilute shares, it is expected that the impact on the share price will be relatively lessened. In addition, because the total amount of 10,019,919,840 yen is to be paid on the due date of payment, the Company may procure a large sum of funds at the time of the issuance.
- (ii) In the case of financing through issuing stock acquisition rights, while it is generally possible to avoid immediate dilution as in the case of financing through issuing convertible bonds with share acquisition rights, it is believed that there are certain demerits in which there is a possibility that the Company would be unable to procure funds at the time or in the amount that it initially expected.
- (iii) In the case of financing through bank loans, while it would be necessary to pay proportionate interest and repay the principal at maturity, it is generally possible to procure a considerable amount of funds without interest through the issuance of convertible bonds with share acquisition rights, and if the share price rises and the conversion into shares processes in the future, it is expected that the Company's equity capital may be enhanced and its financial foundation may be reinforced without the need to repay the amount equivalent to the face value amount.

Merits and demerits of the financing scheme through issuance of the Bonds with Share Acquisition Rights

Merits

- (i) By issuing the Bonds with Share Acquisition Rights, it is possible to procure certain funds at the time of the issue of the securities.
- (ii) By issuing the Bonds with Share Acquisition Rights, it will be possible to disperse the impact on the share price because while future expansion of the Company's equity capital can be expected, the conversion is expected to be executed in stages.
- (iii) The conversion price of the Share Acquisition Rights is set to be 1,554 yen, which is equal to the closing price of the trading day immediately prior to September 20, 2023, the date of resolution for issuance, and it will be agreed on in the Subscription Agreement that, in principle, it will be possible to make a request for the exercise the Share Acquisition Rights only if the closing price of regular trading of common shares of the Company for the business day immediately preceding the day on which the request for the exercise of the Share Acquisition Rights becomes effective is not less than the amount obtained by multiplying the conversion price by 1.20. Therefore, exercise of the Share Acquisition Rights at a level not less than the current share price level may be expected. In cases such as issuing shares with put options where the delivery of common shares of the Company in an amount less than the market price is stipulated or granting the share acquisition rights where the delivery of common shares of the Company for in an amount less than the market value may be requested (including those attached to bonds with share acquisition rights, but excluding the share acquisition rights that are delivered to the officers or employees of the Company or the Company's affiliates under the stock option system), or in the case where certain events otherwise occur, there is a possibility that the conversion price of the Bonds with Share Acquisition Rights may be

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

adjusted downward by applying the adjustment provisions attached to the Bonds with Share Acquisition Rights.

- (iv) Because the amount procured by the Bonds with Share Acquisition Rights that is subject to the conversion constitutes equity capital, the financial soundness indicators of the Company will increase.

Demerits

- (i) A certain period of time is required for the completion of the conversion of the Bonds with Share Acquisition Rights depending on the market environment. In addition, if the liquidity of the shares of the Company decreases, it may take some time to complete the conversion.
- (ii) The Bonds with Share Acquisition Rights are not subject to any conversion value change, the conversion price of the Bonds with Share Acquisition Rights is set to be 1,554 yen, which is equal to the closing price of the trading day immediately prior to September 20, 2023, the date of resolution for issuance, and the Scheduled Allottee will agree in the Subscription Agreement that, in principle, it may make a request for the exercise the Share Acquisition Rights only if the closing price of regular trading of common shares of the Company for the business day immediately preceding the day on which the request for the exercise of the Share Acquisition Rights becomes effective is not less than the amount obtained by multiplying the conversion price by 1.20. Therefore, if the share price changes to a level lower than such amount, there is a possibility that the conversion of the Bonds with Share Acquisition Rights will not progress, and it will be necessary to prepare funds for redemption as corporate bonds.
- (iii) The Bonds with Share Acquisition Rights at the time of their issuance are debts from an accounting perspective and are not counted in the capital, so the debt ratio will temporarily increase.
- (iv) Because the agreement is made only between the Company and the Scheduled Allottee, which is known as a third-party allotment method, it will not be possible to enjoy any benefits that could be obtained from procuring funds from an unspecified number of new investors.

In addition, as a result of the discussions with the Scheduled Allottee to delay the timing of dilution of the share value as much as possible, it will be agreed on in the Subscription Agreement that in principle, the Scheduled Allottee may not exercise the Share Acquisition Rights within one year from the Closing Date as a reasonable period of time to confirm any further business expansion and increased earning power obtained through financing by the Bonds with Share Acquisition Rights. On the other hand, as stated below in “(3) Holding policy of the Scheduled Allottee” under “6. Reason for Selection of Scheduled Allottee, Etc.,” because the Scheduled Allottee intends to acquire capital gains to be obtained by aiming to increase the corporate value of the Company and maximize the share price of the Company in the mid- to long-term (during which time the Scheduled Allottee will recover its investment funds upon the conversion of the Bonds with Share Acquisition Rights into common shares and the sale of such shares), the Scheduled Allottee will convert the Share Acquisition Rights into shares at the time that the Scheduled Allottee deems appropriate taking into account the share price of common shares of the Company and other matters during the period in which the Share Acquisition Rights are exercisable.

Based on the above, aiming to increase the corporate value of the Company and maximize the share price of the Company in the mid- to long-term while responding to the Company’s funding needs, premised on the fact that the Scheduled Allottee will consider the share price and existing shareholders’ benefits, benefits the Scheduled Allottee. Therefore, the Company concluded that the most appropriate financing method is to execute the Subscription Agreement and issue the Bonds with Share Acquisition Rights through third-party allotment.

4. Views concerning rationality of use of funds

The Company believes that the use of funds is reasonable from the Company’s business perspective because the allocation of the funds procured from the issuance of the Bonds with Share Acquisition Rights for the uses stated above in “(2) Specific use of funds to be procured” under “3. Amount and Use of Funds to be Procured, and Scheduled Timing of Expenditure” is connected with an increase in corporate value and the maximization of shareholder benefit.

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

5. Rationality of Issuance Conditions, Etc.

(1) Basis of calculation and specific details of the amount to be paid in

In order to ensure fairness in the determination of the issuance conditions of the Bonds with Share Acquisition Rights, the Company requested Plutus Consulting Co., Ltd. (Head Office: 30th floor, Kasumigaseki Building, 3-2-5, Kasumigaseki, Chiyoda-ku, Tokyo; Representative: Mahito Noguchi) (“Plutus”), an independent third-party institution, to calculate the value of the Bonds with Share Acquisition Rights and received a valuation report (the “Valuation Report”) of the Bonds with Share Acquisition Rights on September 19, 2023.

After comparing the calculation results with and examining the results of a Black-Scholes model, binomial model, and other price calculation models, Plutus utilized a Monte Carlo simulation when evaluating the Bonds with Share Acquisition Rights, which as a price calculation model could reflect the various conditions set out in the terms and conditions and the like for the Bonds with Share Acquisition Rights against the calculation results in a relative and appropriate manner. Plutus also calculated the fair value of the Bonds with Share Acquisition Rights by reflecting the trading volume (liquidity) on the stock market, after setting certain conditions for the Company’s share price (1,554 yen), volatility (32.63%), dividend yield (3.09%), risk-free interest rate (0.274%), discount rate (0.93%), etc. and positing certain premises on the Scheduled Allottee’s act of exercising its rights, taking into account the various conditions set out in the terms and conditions of the Bonds with Share Acquisition Rights (conversion price: 1,554 yen, the term until the maturity: five years, interest rate: 0%), the market environment on the valuation reference date, and other factors.

The Company has determined upon consultation with the Scheduled Allottee that the conversion price of the Bonds with Share Acquisition Rights will be 1,554 yen in light of the Company’s financial conditions and management conditions. Such conversion price represents (i) the amount equal to the closing price of the common shares of the Company on September 19, 2023 (which is the business day immediately preceding the date of resolution of the Board of Directors), (ii) a premium of 5.50% on 1,473 yen of the average closing price for the last one month, (iii) a premium of 6.58% on 1,458 yen of the average closing price for the last three months, and (iv) a premium of 12.45% on 1,382 yen of the average closing price for the last six months.

Given the above, the Company has determined the issue price of the Bonds with Share Acquisition Rights (100.2 yen per 100 yen of each bond) to be higher than 100.2 yen per 100 yen of each bond the appraised value (98.2 yen per 100 yen of each bond) evaluated by Plutus. Because the substantial consideration for the Share Acquisition Rights is higher than the fair value of the Share Acquisition Rights after comparing the economic interests that the Company may acquire by attaching the Share Acquisition Rights to the Bonds with the fair value of the Share Acquisition Rights themselves based on the financial engineering, and because no significantly unreasonable point was found in respect of the procedures for such calculation, the Company determined that the issuance conditions for the Bonds with Share Acquisition Rights do not constitute an issuance with particularly favorable conditions (*yuri hakko*), and that the price is appropriate and reasonable.

The Audit & Supervisory Committee of the Company (consisting of three members, including two outside directors) expressed an unanimous opinion of all members that, as a result of the examination based on the details of the issuance terms and conditions, as well as the calculation results of the Valuation Report, the issuance of the Bonds with Share Acquisition Rights does not constitute an issuance with particularly favorable conditions (*yuri hakko*) to the Scheduled Allottee and that the issuance is legal on the grounds that Plutus, a third party valuation institution independent from the Company and the Scheduled Allottee, calculated the value of the Bonds with Share Acquisition Rights, that the calculation method of the value of the Bonds with Share Acquisition Rights utilized by Plutus is a generally accepted and reasonable method pursuant to financial engineering, that the valuation is based on the main facts and premises that may have an impact on the appraised value of the Bonds with Share Acquisition Rights and no unreasonable point was found in respect of the calculation method and process, etc., for the terms and conditions, and that the substantial consideration for the Share Acquisition Rights attached to the Bonds with Share Acquisition Rights is higher than the fair value of the Share Acquisition Rights.

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

(2) Basis of judgment that the issuance quantity and impact of dilution are reasonable

The total number of common shares of the Company to be issued upon the conversion of all of the Bonds with Share Acquisition Rights at the conversion price of 1,554 yen is 6,434,900 shares (64,349 voting rights), and such number represents 13.20% of 48,755,500 shares, which is the total number of issued shares of the Company as of June 30, 2023, and 13.23% of 486,253 voting rights, which is the total number of voting rights of the Company as of March 31, 2023, respectively.

However, the Company believes that the allocation of the funds procured from the issuance of the Bonds with Share Acquisition Rights to the funds for acquisition of land in conjunction with new hotel development and construction work investment and the M&A funds primarily for the hotel development business and construction business as stated above in “(2) Specific use of funds to be procured” of “3. Amount and Use of Funds to be Procured, and Scheduled Timing of Expenditure” will contribute to improved corporate value and to the maximization of share value of the Company in the mid- to long-term. The average trading volume of shares of the Company per day for the past two years is 127,349 shares, and the average trading volume for the last six months is 132,510 shares, meaning that the shares of the Company are liquid to a certain extent. On the other hand, if the total number of common shares of the Company (6,434,900 shares) to be issued upon the conversion of all of the Bonds with Share Acquisition Rights at the conversion price of 1,554 yen is exercised and sold during the five-year exercise period, the number of shares traded per day will be 5,148 shares, and such number will represent approximately 4.04% of the abovementioned trading volume per day for the past two years and approximately 3.88% of the aforementioned trading volume for the past six months. Therefore, the Company believes that the impact on the share price is limited and consumable.

For the avoidance of doubt, it will be agreed on in the Subscription Agreement that if the Scheduled Allottee sells the shares of the Company acquired upon the conversion of the Bonds with Share Acquisition Rights on the market, it will not be allowed to sell the shares of the Company that amount to 25% or more of the total trading volume of shares of the Company on such sale date on the Tokyo Stock Exchange.

Based on the above, the Company determined that the scale of the dilution of shares due to the issuance of the Bonds with Share Acquisition Rights will not have an excessive impact on the market and is reasonable.

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

6. Reason for Selection of Scheduled Allottee, Etc.

(1) Overview of Scheduled Allottee

(As of September 20, 2023)

(i)	Name	AAGS S5, L.P.	
(ii)	Location	Walkers Corporate Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands	
(iii)	Basis of establishment, etc.	Exempted Limited Partnership Law of the Cayman Islands	
(iv)	Purpose of formation	Investment	
(v)	Date of formation	July 4, 2023	
(vi)	investment amount	5,690,000,000 yen	
(vii)	Investors, investment ratio and overview of investors	Advantage Advisors Growth Support Investment Limited Partnership 100%	
(viii)	Overview of general partner	Name	AAGS Investment, Inc.
		Location	Walkers Corporate Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands
		Title and name of representative	Douglas R. Stringer, Director
		Description of business	Management and administration of investment partnership assets
		Stated capital	1,000 U.S dollars (approximately 147,730 yen)
(ix)	Overview of Japanese agent	Not applicable.	
(x)	Relationship with the Company and the Scheduled Allottee	Relationship between listed company and fund	The Company, and the Company's relevant parties and affiliates do not directly or indirectly invest in the fund.
		Relationship between listed company and general partner	There is no capital, personnel, or transactional relationship to be noted between the Company and the general partner of the fund. Also, there is no capital, personnel, or transactional relationship to be specifically noted between the Company and the Company's relevant parties and affiliates, and the fund's general partner, the fund's investors (including current investors), and the relevant parties and affiliates of the fund's general partner.
		Relationship between listed company and Japanese agent	Not applicable.

- Note: 1. Using the U.S. dollar to yen exchange rate where one dollar is converted into 147.73 yen (the exchange rate as of September 19, 2023).
2. The Company requested K.K. Security & Research (Address: 2-16-6, Akasaka, Minato-ku, Tokyo; Representative: Toshitsugu Haneda), a third party research institution, to research whether the Scheduled Allottee, its general partner and officers, and all investors of the Scheduled Allottee (collectively, the "Scheduled Allottee Relevant Parties") are anti-social forces such as organized crime groups, etc., and whether they have any relationship with anti-social forces. The Company received a report from K.K. Security & Research that it examined, analyzed, and verified documents and materials, confirmed previous acts, attribute information, lawsuit records, criminal records, and other matters, made inquiries to various related institutions, collected reputational information, and conducted on-site surveys in relation to the Scheduled Allottee, its related corporations and other groups, and its related

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

individuals.

The Company received a written report on August 28, 2023 stating to the effect that as a result of such research, no information was found which indicates that the persons subject to such research have any relationship with anti-social forces, etc. or have committed illegal acts.

Therefore, the Company determined that the Scheduled Allottee Relevant Parties have no relationship with anti-social forces such as organized crime groups, etc. The Company also filed their confirmation that the Scheduled Allottee Relevant Parties have no relationship with anti-social forces with the Tokyo Stock Exchange, Inc.

(2) Reason for selection of scheduled allottee

The Company selected AAGS S5, L.P. as the Scheduled Allottee of the Bonds with Share Acquisition Rights for the following reasons.

As stated above in “2. Purpose and Reasons for Offering,” when steadily promoting the measures for accelerating our growth strategy for the future while also drawing up our next mid-term management plan, while the Company believes that procuring investment funds and M&A funds for the hotel development business and others will be necessary, and also that acquiring a high level of external professional support will be effective, the Company has received a proposal from Advantage Advisors regarding a business alliance with the corporate group in which Advantage Advisors would provide information, introduce clients, and provide business support in around April 2023.

In addition, Advantage Advisors, which has track record in dealing with listed companies and is reliable, introduced to the Company a fund for which Advantage Advisors provides services as the Scheduled Allottee as a financing method that may satisfy the Company’s needs, in which the Company desires to procure necessary funds while fully considering the share price and existing shareholders benefit. Advantage Advisors provides management and financial advice, and provides information by using its own network, to the listed companies in which the fund invests in order to maximize investment returns for the fund for which Advantage Advisors provides services.

After careful consideration of Advantage Advisors’ extensive track record in dealing with listed companies and the specifics of their proposal, the corporate group has determined that the proposal from Advantage Advisors is the most appropriate in order to improve the corporate value of the corporate group because it can receive from Advantage Advisors growth support consistent with the corporate group’s mission and needs when tackling the management issues of which the corporate group is aware and because the corporate group considers the issuance of the Bonds with Share Acquisition Rights by way of third-party allotment as stated above in “Reasons for selecting financing by bonds with share acquisition rights” in “(2) Specific use of funds to be procured” under “3. Amount and Use of Funds to be Procured, and Scheduled Timing of Expenditure” to be the most appropriate fundraising method. Therefore, the corporate group has resolved around August 2023 to conduct the third-party allotment and selected AAGS S5, L.P., a fund for which Advantage Advisors provides services and which as described above has a track record in dealing with listed companies and is reliable, as the Scheduled Allottee.

(3) Holding policy of the Scheduled Allottee

The Company has received oral explanations from the Scheduled Allottee that the Scheduled Allottee has the policy in which it will not transfer of the Bonds with Share Acquisition Rights to a third party within a short period of time after the allocation because the Scheduled Allottee anticipates the medium-to long-term growth of the Company and intends to acquire capital gains to be obtained by aiming to increase the corporate value of the Company and maximize the share price of the Company in the mid- to long-term (during which time the Scheduled Allottee will recover its investment funds upon the conversion of the Bonds with Share Acquisition Rights into common shares and the sale of such shares). However, the Scheduled Allottee has the policy in which it will sell the common shares of the Company to be delivered upon the exercise of the share acquisition rights for the Bonds with Share Acquisition Rights while taking into account the operating results of the corporate group, the status of distribution, market trends and other matters.

In addition, as stated above in “(9) Other Matters” in “1st Series Unsecured Convertible Bonds with Share

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

Acquisition Rights” under “1. Overview of Offering,” the Scheduled Allottee will agree in the Subscription Agreement that in principle, the Scheduled Allottee may not exercise the Share Acquisition Rights within one year from the Closing Date.

With respect to the Bonds with Share Acquisition Rights, although the Scheduled Allottee will not be able to transfer either of the Share Acquisition Rights or the Bonds in accordance with the provisions of the main clauses of Paragraphs 2 and 3 of Article 254 of the Companies Act, the Subscription Agreement executed between the Company and the Scheduled Allottee is expected to provide for restrictions in which the transfer of the Bonds with Share Acquisition Rights to a third party will require approval by resolution of the Board of Directors of the Company. In the case of a transfer of the Bonds with Share Acquisition Rights with such approval by a resolution of the Board of Directors of the Company, the Company confirms that the transferee will succeed to the rights and obligations relating to prior identity verification and anti-social forces compliance checks, confirmation of the source of the funds for the payment upon the exercise, confirmation of the holding policy for the share acquisition rights and the shares to be acquired upon the exercise thereof, restrictions on the exercise under the agreement to be executed between the Company and the Scheduled Allottee, and the like, and if the transfer is approved, the Company will disclose the details of the transfer.

In addition, as stated above in “(9) Other Matters” of “1st Series Unsecured Convertible Bonds with Share Acquisition Rights” of “1. Overview of Offering,” the Scheduled Allottee will agree in the Subscription Agreement that if the Scheduled Allottee transfers the shares acquired through the conversion of Bonds with Share Acquisition Rights through off-market trading (excluding trading in which the purchaser is unidentifiable, such as PTS trading or off-floor trading), the Scheduled Allottee will not transfer such shares to certain competitors designated by the Company or to activists without the prior written approval of the Company.

(4) Confirmation of the existence of assets required for the Scheduled Allottee to make payment
With respect to the existence of the assets required for the Scheduled Allottee of the Bonds with Share Acquisition Rights to pay the issue price, the Company obtained a copy of the account balance (as of September 13, 2023) at the transaction bank of the Scheduled Allottee of the Bonds with Share Acquisition Rights, and the loan certificates (both as of September 13, 2023) obtained by the Scheduled Allottee from The Bank of Yokohama, Ltd. and Chugoku Bank, Limited indicating that those banks are ready to make a loan in the maximum amount of 3.5 billion yen and 1.5 billion yen, respectively, on the specific conditions (such as interest rate, term, and repayment method) that were separately determined upon consultation. The Company examined the loan term, loan type, repayment method, conditions for loan drawdown, and other matters, and confirmed that the relevant loan will be executed on October 6, 2023 and that there are no material conditions that would prevent the execution of such loan between the Scheduled Allottee, and The Bank of Yokohama, Ltd. and Chugoku Bank, Limited.

Based on the results of such confirmation, the Company determined that the payment of the issue price of the Bonds with Share Acquisition Rights is assured.

(5) Lockup and first refusal right
The Company will agree in the Subscription Agreement that if the Company intends to decide, execute, or agree with a third party on, the issue or disposal of shares, etc. (excluding those in conjunction with (i) the issue of the Bonds with Share Acquisition Rights, and (ii) the share remuneration based on the share remuneration system for the officers and employees of the Company and its subsidiaries that have been already adopted as of the execution date of the Subscription Agreement, and the exercise of share acquisition rights for stock option purposes that have already been issued as of the execution date of the Subscription Agreement) for the period from the Closing Date to the earlier of either (i) the expiration date of the exercise period of the Share Acquisition Rights or (ii) the day on which the holding ratio of shares, etc. of the Scheduled Allottee ceases to be equal to or more than 5%, the Company will notify the Scheduled Allottee of the details of such decision, execution, or agreement and confirm the intention of the Scheduled Allottee by no later than 20 business days prior to the such decision, execution or agreement, whichever is earliest, and the Company will obtain the approval in writing from the Scheduled Allottee before the earlier of such decision, execution or agreement. After the receipt of such notice, if the Scheduled Allottee desires the issue

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

or disposal of shares, etc. to the Scheduled Allottee on the same conditions on behalf of, or in addition to, such third party, the Company will issue or dispose of the shares, etc. to the Scheduled Allottee under the same conditions.

7. Major Shareholders and Ownership Ratio After the Offering

Before offering (As of March 31, 2023)		After offering	
HOUON Co., Ltd.	36.91%	HOUON Co., Ltd.	32.60%
The Master Trust Bank of Japan, Ltd. (Accounted in trust)	8.46%	AAGS S5, L.P.	11.68%
Tomoaki Horiguchi	6.21%	The Master Trust Bank of Japan, Ltd. (Accounted in trust)	7.47%
Custody Bank of Japan, Ltd. (Accounted in trust)	3.51%	Tomoaki Horiguchi	5.49%
S KAWAGOE Co., Ltd.	3.22%	Custody Bank of Japan, Ltd. (Accounted in trust)	3.10%
THE BANK OF NEW YORK MELLON 140044 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing)	1.53%	S KAWAGOE Co., Ltd.	2.84%
Morgan Stanley MUFG Securities Co., Ltd.	1.21%	THE BANK OF NEW YORK MELLON 140044 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing)	1.35%
JP Morgan Securities Co., Ltd.	1.13%	Morgan Stanley MUFG Securities Co., Ltd.	1.07%
DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank, NA Tokyo Branch)	0.87%	JP Morgan Securities Co., Ltd.	1.00%
Keiko Horiguchi	0.86%	DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank, NA Tokyo Branch)	0.77%

- Note:
1. The major shareholders and shareholding ratios before the offering are calculated based on the shareholders' register as of March 31, 2023.
 2. The major shareholders and shareholding ratios after the offering are calculated by adding the number of common shares of the Company (6,434,900 shares) to be delivered upon the conversion of all of the Bonds with Share Acquisition Rights at the conversion price (1,554 yen) to the total number of issued shares (48,755,500 shares) as of March 31, 2023.
 3. The shareholding ratio is rounded off to the second decimal place.
 4. The shareholding ratio is calculated by deducting the number of treasury shares (108,869 shares as of March 31, 2023).

8. Future Outlook

Although this issue of the Bonds with Share Acquisition Rights through third-party allotment is expected to have a minimal impact on the operating results of the corporate group for the year ending March 2024, while receiving growth support from Advantage Advisors through the business alliance, the Company believes that it will be able to realize corporate value improvement for the corporate group and shareholder benefit maximization through allocating the funds procured by the third-party allotment to investments in hotel development and the like as well as funds for M&A.

9. Matters Concerning the Procedures Required by the Corporate Code of Conduct

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

This issue of the Bonds with Share Acquisition Rights does not require the procurement of an opinion from an independent third party or require procedures for confirming the intent of shareholders, which are provided for under Rule 432 of the Securities Listing Regulations of the Tokyo Stock Exchange, because (i) the dilution ratio is less than 25% and (ii) this issue does not involve a change in controlling shareholder (no change in controlling shareholder is expected even in the event that all of the Bonds with Share Acquisition Rights are converted into common shares).

10. Operating Results and Status of Equity Finance Executed for the Last Three Years

(1) Operating results for the last three years (consolidated)

(Denominated in millions of yen unless otherwise noted)

	FY ending March 2021	FY ending March 2022	FY ending March 2023
Net sales	59,632	71,251	82,777
Operating profit	7,912	12,127	14,905
Ordinary profit	7,524	12,215	14,722
Profit attributable to the owners of the parent company	4,274	7,415	11,612
Earnings per share (yen)	87.77	152.26	238.98
Dividend per share (yen)	42	44	48
Net assets per share (yen)	1,368.14	1,463.74	1,663.33

Note: 1. “Accounting Standards for Revenue Recognition” (ASBJ Statement No. 29 as of March 31, 2020) has been applied from the beginning of the FY ending March 2022. Major management indicators, etc. for the FY ending March 2022 are the indicators after the application of the accounting standards, etc.

2. The Company has adopted the Employee Stock Ownership Plan (J-ESOP) since the 19th fiscal year, and the Company’s shares held by the trust account of the Employee Stock Ownership Plan are included as treasury shares in the consolidated financial statements for the 19th fiscal year and thereafter. Therefore, when calculating consolidated earnings per share, the weighted average number of shares for the period in common shares is calculated including the number of the said shares in treasury shares. In calculating the amount of consolidated net assets per share, the said number of shares is included in the number of treasury shares to be deducted from the total number of issued shares at the end of the period.

(2) Current number of issued shares and dilutive shares (as of September 20, 2023)

Type	Number of shares	Ratio to the number of issued shares
Number of issued shares	48,755,500 shares	100.00%
Number of dilutive shares at current conversion price (exercise price)	—	—

Note: The number of dilutive shares described above is based on the stock options.

(3) Status of recent share prices

(i) Status for the last three years

	FY ending March 2021	FY ending March 2022	FY ending March 2023
Opening price	803 yen	967 yen	1,058 yen
Highest price	1,077 yen	1,263 yen	1,317 yen
Lowest price	703 yen	912 yen	1,005 yen
Closing price	967 yen	1,050 yen	1,281 yen

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.

(ii) Status for the last six months

	April 2023	May 2023	June 2023	July 2023	August 2023	September 2023
Opening price	1,295 yen	1,330 yen	1,316 yen	1,428 yen	1,508 yen	1,444 yen
Highest price	1,316 yen	1,381 yen	1,476 yen	1,517 yen	1,541 yen	1,559 yen
Lowest price	1,241 yen	1,282 yen	1,312 yen	1,393 yen	1,382 yen	1,433yen
Closing price	1,316 yen	1,318 yen	1,427 yen	1,508 yen	1,444 yen	1,554 yen

Note: The share price for September 2023 is as of September 19, 2023.

(iii) Share prices on the day immediately preceding the date of resolution for issuance.

	As of September 19, 2023
Opening price	1,539 yen
Highest price	1,556 yen
Lowest price	1,530 yen
Closing price	1,554 yen

(4) Status of equity finance executed for the last three years
Not applicable.

End

This press release has been prepared for the purpose of publicly announcing the issuance by the Company of convertible bonds with share acquisition rights by way of third-party allotment, and not for the purpose of soliciting investment or engaging in any other similar activities.

The forecasts, estimations, prospects and other information pertaining to future outcomes included in this press release are based on the information available to the Company as of today and certain conditions or assumptions, and the actual operating results, etc. may differ significantly from the information pertaining to future outcomes included in this press release due to domestic and foreign financial conditions, foreign exchange trends, or other risk factors.