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This circular was prepared in accordance with the requirements under the Listing Rules and the Companies Act of Japan.



**DYNAM JAPAN HOLDINGS Co., Ltd.**

*(incorporated in Japan with limited liability)*

**(Stock Code: 06889)**

**(1) CONNECTED TRANSACTION:  
PROPOSED AMENDMENTS TO  
THE ORIGINAL DEED OF NON-COMPETITION;  
(2) MAJOR AND CONTINUING CONNECTED TRANSACTION:  
COOPERATION FRAMEWORK AGREEMENT;  
AND  
(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING IN 2018**

**Independent Financial Adviser  
to the Independent Board Committee and the Independent Shareholders**



Capitalised terms used herein have the meanings set out in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 7 to 26 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 27 to 28 of this circular. A letter from Octal Capital, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the independent Shareholders is set out on pages 29 to 44 of this circular.

Notice of the EGM to be held at 2-27-5 Nishi-Nippori, Arakawa-ku, Tokyo, Japan on Thursday, 20 December 2018 at 10:00 a.m. (Japan time) is set out on pages EGM-1 to EGM-3 of this circular.

A proxy form for use at the EGM is enclosed hereto and is also published on the websites of the Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.dyjh.co.jp/>). Shareholders who intend to appoint a proxy to attend and vote on behalf of them at the EGM shall complete and return the enclosed proxy form in accordance with the instructions printed thereon.

28 November 2018

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 26 September 2018 in relation to the Supplemental Deed and the Cooperation Framework Agreement;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Additional Covenantors”	means SAC and SAIL;
“Aircraft Leasing Business”	means the business of (a) acquisition of aircraft; (b) leasing of aircraft (including operating leases and finance leases (which include financing arrangements in sale and leaseback transactions)); and (c) disposal of aircraft;
“Amended Deed”	means the Original Deed as amended by this Supplemental Deed;
“Articles”	means the articles of incorporation of the Company, as amended from time to time;
“Asset”	means, in respect of Aircraft Leasing Business, (a) aircraft; (b) interest in an entity which owns aircraft; and (c) interest in an entity which carries on Aircraft Leasing Business and where the contexts requires, includes part of an Asset;
“Bid Notice”	means a written notice to be served by a SAC Aircraft Leasing Member or the Company on each other regarding a Joint Bid Opportunity;
“Board”	means the board of Directors of the Company;
“business day”	means any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong and Japan are generally open for normal banking business;
“Company”	means DYNAM JAPAN HOLDINGS Co., Ltd., a company incorporated under the laws of Japan with limited liability the shares of which are listed on the Main Board of the Exchange;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“controlling Shareholder”	has the meaning ascribed to it under the Listing Rules;

## DEFINITIONS

“Cooperation Framework Agreement”	means an agreement dated 26 September 2018 and a supplemental agreement dated 21 November 2018 made between SAC Aircraft Leasing Members and the Company relating to the future cooperation between SAC Aircraft Leasing Members and the Group on Aircraft Leasing Business;
“Covenantors”	means all the Covenantors to be bound by the Amended Deed including the Original Covenantors and the Additional Covenantors;
“Directors”	means the directors of the Company from time to time;
“Disposing Member”	means any SAC Aircraft Leasing Member who proposes to dispose an Asset;
“EGM”	means an extraordinary general meeting of the Company;
“Exchange”	means The Stock Exchange of Hong Kong Limited;
“Group”	means the Company and its Subsidiaries from time to time, and “member(s) of the Group” shall be construed accordingly;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“HK\$”	means Hong Kong dollar, the lawful currency of Hong Kong;
“Independent Board Committee”	has the meaning ascribed to it by the Listing Rules;
“Independent Directors”	means the independent non-executive directors of the Company;
“Independent Financial Adviser”	means Octal Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the independent Shareholders in respect of the terms of the Supplemental Deed and the Cooperation Framework Agreement;
“independent Shareholders”	has the meaning ascribed to it by the Listing Rules;

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“Joint Bid Counterparty”	means any person requesting for a bid under the Joint Bid Opportunity;
“Joint Bid LOI”	means a letter of intent under the Joint Bid Opportunity;
“Joint Bid LOI Notice”	means a written notice served by the Joint Bid Team on the Company with the Joint Bid LOI under the Joint Bid Opportunity;
“Joint Bid Opportunity”	means a bid to acquire or lease of Asset which is open to more than one party to make a joint bid;
“Joint Bid Team”	means a team to be formed by SAC Aircraft Leasing Member and the Company (and/or through its Subsidiary) under a Joint Bid Opportunity;
“JPY”	means Japanese Yen, the lawful currency of Japan;
“Latest Practicable Date”	23 November 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing”	means the listing of Shares on the Exchange;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Exchange, as amended from time to time;
“Mr. Yoji SATO”	means one of the Directors of the Company and also the director and majority shareholder of SAC, and one of the Covenantors;
“Octal Capital”	means Octal Capital Limited, the Independent Financial Adviser;
“Original Covenantors”	means Mr. Yoji SATO, Rich-O and SATO Family Members;
“Original Deed”	means deed of non-competition entered into by the Original Covenantors and the Company on 18 July 2012 in contemplation of the initial public offering of shares by the Company in 2012;
“PRC”	means the People’s Republic of China;

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“Private Deal Counterparty”	means an airline, aircraft leasing company, aircraft manufacturer or any other person to be dealt with by the SAC Aircraft Leasing Member under a Private Deal Opportunity;
“Private Deal Information”	means the information including the specification of the aircraft, maintenance condition of the aircraft, summary of the lease contract and all commercial terms under negotiation for a Private Deal Opportunity;
“Private Deal LOI”	means a letter of intent under the Private Deal Opportunity;
“Private Deal Notice”	means a written notice to be served by the SAC Aircraft Leasing Member on the Company with the Private Deal LOI under a Private Deal Opportunity;
“Private Deal Opportunity”	means an opportunity available to, or an offer made to a single party for acquisition or leasing of Asset;
“Proposed Amendments”	means the proposed amendments to the Original Deed as provided in the Supplemental Deed dated 26 September 2018;
“Rich-O”	means Rich-O Co., Ltd., a stock company incorporated in Japan with limited liability, and a subsidiary of SAC;
“Right of First Refusal Notice”	means a written notice served on the Company by the Disposing Member regarding the disposal of an Asset;
“Right of First Refusal Response Notice”	means a written response of the Right of First Refusal Notice served on the Disposing Member by the Company;
“Restricted Activity”	means the restricted activity provided under the Original Deed, pursuant to which, the Original Covenantors has undertaken among other things, not to do during the term thereof, including participating or be interested or engaged in or acquire or hold any activity or business which is or may be in competition, directly or indirectly, with the business carried on or contemplated to be carried on by any member of the Group;
“SAC”	means Sato Aviation Capital Limited, a company formed under the laws of Hong Kong in 2015 and wholly owned by Mr. Yoji SATO. SAC is a controlling Shareholder of the Company;

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“SAC Aircraft Leasing Member(s)”	means SAC and/or SAIL as the context requires;
“SAIL”	means Sato Aviation Ireland Limited, a company formed under the laws of the Republic of Ireland with limited liabilities, and a subsidiary of SAC;
“SATO Family Members”	means each of Mrs. Keiko SATO (wife of Mr. Yoji SATO), Mrs. Yaeko NISHIWAKI (sister of Mr. Yoji SATO) and her associate, Mr. Masahiro SATO (brother of Mr. Yoji SATO), Mr. Shigehiro SATO (brother of Mr. Yoji SATO), and Mr. Kohei SATO (brother of Mr. Yoji SATO). SATO Family Members is a party acting in concert with Mr. Yoji SATO, SAC and Rich-O and each other to obtain or consolidate the holding of 30% or more of the Company;
“SFO”	means the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
“Share”	means a share in the capital of the Company;
“Shareholder”	means a holder of Shares and “Shareholders” shall be construed accordingly;
“Subsidiary”	means has the meaning ascribed to it under the Listing Rules and “Subsidiaries” shall be construed accordingly;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“Supplemental Announcement”	means the supplemental announcement of the Company dated 21 November 2018 in relation to the Cooperation Framework Agreement;
“Supplemental Deed”	means the supplemental deed to Original Deed dated 26 September 2018 made between the Original Covenantors, the Additional Covenantors listed therein and the Company;
“Third Party Buyer”	means a buyer independent of the Group and any of the SAC Aircraft Leasing Member;

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- “Total Invested Capital” means in respect of Aircraft Leasing Business to be undertaken by the Group under the Cooperation Framework Agreement, the total capital deployed (irrespective of funding source) by the Group for acquisition of Asset less the total proceeds realized by the Group for the disposal of Assets at any one time; and
- “Undertaking” means all the undertakings provided by the Covenantors in favour of the Company pursuant to the Amended Deed; and
- “%” means per cent.

*For the purpose of illustration only and unless otherwise stated, conversion from JPY to HK\$ in this circular is based on the exchange rate of JPY1.00 to HK\$0.069. Such conversion should not be construed as a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate.*



**DYNAM JAPAN HOLDINGS Co., Ltd.**

*(incorporated in Japan with limited liability)*

**(Stock Code: 06889)**

*Executive Director:*

Mr. Kohei SATO

*(Chairman and Chief Executive Officer)*

*Non-executive Directors:*

Mr. Yoji SATO

Mr. Tatsuji FUJIMOTO

Mr. Noriaki USHIJIMA

*Independent Non-executive Directors:*

Mr. Ichiro TAKANO

Mr. Mitsutoshi KATO

Mr. Thomas Chun Kee YIP

Mr. Kei MURAYAMA

Mr. Kiyohito KANDA

*Registered office:*

2-25-1-702

Nishi-Nippori

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Tokyo, 116-0013

Japan

*Head Office and Principal Place  
of Business in Hong Kong:*

Unit A1, 32nd Floor

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95 Queensway, Admiralty

Hong Kong

28 November 2018

*To the Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION:  
PROPOSED AMENDMENTS TO  
THE ORIGINAL DEED OF NON-COMPETITION;  
(2) MAJOR AND CONTINUING CONNECTED TRANSACTION:  
COOPERATION FRAMEWORK AGREEMENT;  
AND  
(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING IN 2018**

**1. INTRODUCTION**

Reference is made to the Announcement dated 26 September 2018 and the Supplemental Announcement dated 21 November 2018 in relation to the Supplemental Deed and the Cooperation Framework Agreement. The purpose of this circular is, among other things, to provide (i) further details of the Supplemental Agreement and the Proposed Amendments contemplated thereunder as well as the Cooperation Framework Agreement and the proposed annual caps for the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board

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Committee to the independent Shareholders in respect of the Supplemental Deed and the Cooperation Framework Agreement; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the independent Shareholders in respect of the Supplemental Deed and the Cooperation Framework Agreement; and (iv) a notice of the EGM.

## **2. THE PROPOSED AMENDMENTS AND THE SUPPLEMENTAL DEED**

### **(1) Background**

Reference is made to the Original Deed. Pursuant to the Original Deed, each of the Original Covenantors, namely Rich-O, Mr. Yoji SATO and each of the SATO Family Members has undertaken to the Company (for itself and for the benefits of its Subsidiaries) that, among other things, (i) it/he/she will not during the term of the Original Deed, directly or indirectly carry on, participate or be interested or engaged in or acquire or hold any activity or business which is or may be in competition, directly or indirectly, with the Restricted Activity; and (ii) in the event that it/he/she is given/identified any opportunities which directly, or indirectly competes with the Restricted Activity, it/he/she will as soon as practicable inform the Company of such opportunity in writing. Furthermore, none of the Original Covenantors shall be permitted to take up any such new business opportunities whether or not the Company determines to pursue them, for as long as the undertaking as stated in (i) remain in effect.

Since the Listing, the Group has been principally engaged in pachinko hall operation in Japan. SAC, through its subsidiary SAIL, has carried on Aircraft Leasing Business. The Company considers that the Aircraft Leasing Business has high growth potential and contemplates to carry on such business. As SAC Aircraft Leasing Members have already accumulated substantial know-how and business connection in the Aircraft Leasing Business, the Company plans to enter into the Aircraft Leasing Business with the assistance and cooperation of the SAC Aircraft Leasing Members.

Therefore, in order to facilitate the SAC Aircraft Leasing Members in providing assistance and cooperation to the Company to set up the Aircraft Leasing Business, the Original Deed shall have to be amended accordingly.

### **(2) Proposed Amendments**

Under the Supplemental Deed, SAC and SAIL shall be included as Additional Covenantors to the Amended Deed and they shall be bound by the Amended Deed.

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Pursuant to the Supplemental Deed, the scope of the exceptions to the undertakings provided under the Original Deed is expanded to cover the following two (2) aspects:

- (a) any activity or business to be carried on by any member of SAC Aircraft Leasing Members and their respective associates (other than a member of the Group) pursuant to the Cooperation Framework Agreement; or
- (b) the acquisition, holding and disposal of any interests by any SAC Aircraft Leasing Member and their respective associates (other than a member of the Group) in (i) any company which conducts or engages in Aircraft Leasing Business; (ii) any aircraft; and (iii) any aircraft lease.

### **(3) Conditions to the Supplemental Deed**

The Supplemental Deed shall take effect upon:

- (a) the Company having obtained the approval of independent Shareholders in relation to the Supplemental Deed and the Cooperation Framework Agreement;
- (b) the Cooperation Framework Agreement having been duly executed by the parties thereto; and
- (c) all requirements under the Articles and the Listing Rules having been fully complied with in relation to the Supplemental Deed and the Cooperation Framework Agreement.

## **3. COOPERATION FRAMEWORK AGREEMENT**

### **(1) Scope**

Under the Cooperation Framework Agreement, it is contemplated that SAC Aircraft Leasing Members may refer Private Deal Opportunity to the Group and the SAC Aircraft Leasing Members and the Company (and/or through its Subsidiaries) may cooperate in Joint Bid Opportunity in respect of Aircraft Leasing Business, provided that the following mechanisms are strictly followed:

#### ***(A) Private Deal Opportunity***

- I. If any of the SAC Aircraft Leasing Members shall be offered or identify a Private Deal Opportunity to acquire or lease Asset from an airline, aircraft leasing company, aircraft manufacturer or any other person (the "**Private Deal Counterparty**") of which it is interested to pursue, it shall, if necessary, endeavor to enter into a non-disclosure agreement with the Private Deal Counterparty and shall inform the Private Deal Counterparty that (i) the Company (and/or its Subsidiaries) may be the purchaser or lessor in place of or in

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addition to it; and (ii) it shall release information relating to the Asset including the specification of the aircraft, maintenance condition of the aircraft, summary of the lease contract (if applicable) and all commercial terms under negotiation (collectively “**Private Deal Information**”) to the Company (and/or its Subsidiaries).

- II. If the Private Deal Counterparty does not agree to any of the matters set out in (i) and (ii) of the above Clause I, such SAC Aircraft Leasing Member shall forthwith notify the Company. The Company shall, within five (5) business days after receipt of such notification from such SAC Aircraft Leasing Member, consult with such SAC Aircraft Leasing Member the reasons of the Private Deal Counterparty’s refusal, and after considering such reasons and the prevailing circumstances, notify such SAC Aircraft Leasing Member that either (a) such SAC Aircraft Leasing Member shall not pursue the Private Deal Opportunity any further or (b) such SAC Aircraft Leasing Member may itself pursue Private Deal Opportunity without any need to fulfill (i) and (ii) of Clause I.
- III. Subject to the above Clause II, such SAC Aircraft Leasing Member shall proceed with the negotiation with the Private Deal Counterparty relating to the Private Deal Opportunity and, except in the case of Clause II (b), release Private Deal Information to the Company (and/or its Subsidiaries). Once all the major terms relating to the Private Deal Opportunity (to be incorporated in a letter of intent (the “**Private Deal LOI**”) to be executed by the relevant parties) have been finalized, except in the case of Clause II(b), such SAC Aircraft Leasing Member shall serve a notice in writing on the Company together with a copy of the finalized Private Deal LOI (the “**Private Deal Notice**”) to seek its confirmation as to whether it shall purchase or lease the Asset subject to the terms set out in the Private Deal LOI.
- IV. The Company shall, as soon as reasonably practicable and in any event not later than three (3) business days after its receipt of the Private Deal Notice, serve a notice in writing on such SAC Aircraft Leasing Member confirming the decision of the Company. If the Company shall confirm that it will purchase or lease the Asset, it will be the Company which shall execute the Private Deal LOI; and if the Asset consists of more than one item, the Company shall have the priority in choosing the items it wishes to acquire or lease and the Private Deal LOI shall be executed by the Company and the SAC Aircraft Leasing Member (where applicable) with the Private Deal Counterparty. If the Company shall confirm it will not purchase or lease the Asset, such SAC Aircraft Leasing Member shall have the

## LETTER FROM THE BOARD

right to execute the Private Deal LOI and proceed with the transaction itself on substantially the same terms as set out in the Private Deal LOI (including the price of the Asset).

- V. Any decision by the Company in relation to the Private Deal Opportunity as provided in Clauses II and IV above shall be made by the Independent Directors and the closing of the Private Deal Opportunity shall be subject to the compliance of the applicable regulatory requirements, disclosure and/or approval procedures under Listing Rules and any other applicable laws (if necessary).

### **(B) Joint Bid Opportunity**

- I. If any SAC Aircraft Leasing Member or the Company (and/or through its Subsidiary) shall identify a Joint Bid Opportunity, it shall, as soon as reasonably practicable, serve a notice in writing (the “**Bid Notice**”) on the other Party setting out the relevant information in relation to the bid provided by the person requesting for the bid (the “**Joint Bid Counterparty**”).
- II. The Company shall have the right to make a decision regarding firstly, whether to participate in such bidding opportunity; and secondly whether to participate in such bidding jointly with SAC. The Company shall promptly inform the SAC Aircraft Leasing Members of such decision within three (3) business days after the date of the Bid Notice.
- III. If the Company confirms to participate in the bidding jointly with SAC Aircraft Leasing Members, the parties shall within three (3) business days after the Company’s confirmation, discuss, in good faith, the terms of their cooperation before submitting a joint bid. The parties shall form a team for the joint bid (the “**Joint Bid Team**”).
- IV. Unless otherwise agreed by the parties, the principal terms for their cooperation shall be as follows:
  - (a) the total number and type(s) of aircraft which the Joint Bid Team shall jointly bid for;
  - (b) the number and type(s) of aircraft which each of them shall undertake to bid for if the joint bid shall become successful;
  - (c) the Company (and/or its Subsidiary) shall have the first choice over the number of aircraft and the type of aircraft which it would wish to acquire, or lease out of the total number and type(s) of aircraft available for bidding; and

## LETTER FROM THE BOARD

- (d) the joint bidding shall not involve co-ownership of any aircraft, the formation of a joint venture entity for such bidding or the incurrence of liability for the acquisition, leasing or disposal of aircraft under the joint bid other than the aircraft which each of them shall undertake to acquire or lease.
- V. The Company (and/or through its Subsidiaries) and the SAC Aircraft Leasing Member shall jointly participate in the following activities in respect of the Joint Bid Opportunity (where applicable):
  - (a) obtaining invitation to bid;
  - (b) executing the non-disclosure agreement (if required);
  - (c) obtaining information on the Asset;
  - (d) conducting the analysis and evaluation of the Asset, and the risk and the return of such investment.
- VI. If, for whatever reason, the number of aircraft which the Joint Bid Team shall successfully bid for shall fall short of the number of aircraft which the Joint Bid Team originally intends to bid for, then the number of aircraft successfully bid for by the Joint Bid Team shall be allocated to each member of Joint Bid Team with the intent that, as far as possible, the Company (or its Subsidiary) shall be able to acquire or lease the number and type(s) of aircraft which it undertakes to acquire or lease initially.
- VII. Each member of the Joint Bid Team shall obtain funding severally in respect of the acquisition of aircraft undertaken to be acquired by it under a successful joint bid. Such funding shall not be in any way resorting to financial assistance of any kind from the other members of Joint Bid Team or their associates.
- VIII. Each member of the Joint Bid Team shall undertake to the other members of the Joint Bid Team that it will use its best endeavors to complete the acquisition, leasing or disposal of the number and type(s) of aircraft undertaken to be acquired or leased by it under a successful joint bid and shall fully indemnify the other members of the Joint Bid Team against all losses, claims and damages arising out of its default in completing the acquisition, leasing or disposal of such aircraft.
- IX. Once all the major terms relating to the Joint Bid Opportunity (to be incorporated in a letter of intent (the “**Joint Bid LOI**”) to be executed by the relevant parties) have been finalized, the Joint Bid Team shall serve a notice in writing on the Company together with a copy of the finalized Joint Bid LOI (the “**Joint Bid LOI Notice**”). The Company

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shall, as soon as reasonably practicable and in any event not later than three (3) business days after its receipt of the Joint Bid LOI Notice, notify the Joint Bid Team in writing of the decision of the Company as to whether the Company will execute the Joint Bid LOI.

- X. Any decision relating to the execution of the Joint Bid LOI by the Company as set out in this Clause IX shall be made by the Independent Directors. Closing of the acquisition, leasing or disposal of Assets pursuant to any joint bid shall be subject to compliance of applicable requirements, disclosure and/or approval procedures under the Listing Rules and any other applicable laws (if necessary).
- XI. If the Company (and/or through its Subsidiary) cannot reach agreement with the SAC Aircraft Leasing Members on the terms of their cooperation in relation to the joint bidding; or if, for whatever reason, the Company (and/or through its Subsidiaries) shall decide not to participate in or proceed with the joint bid or if the Company decides not to execute the Joint Bid LOI, then each of the Company and the SAC Aircraft Leasing Members shall be entitled to pursue such bidding either alone or together with any third party. Each Party shall inform the other parties of the outcome of such bid and the acquisition or lease aircraft by it thereunder.

### ***(C) Right of First Refusal***

- I. If any SAC Aircraft Leasing Member (the “**Disposing Member**”) proposes to dispose of an Asset (the “**Available-for-Sale Asset**”) and has received an offer from any third party buyer (the “**Third Party Buyer**”), it shall, as soon as reasonably practicable, at any time prior to the signing of the letter of intent relating to such disposal with the Third Party Buyer, serve on the Company a notice in writing (the “**Right of First Refusal Notice**”) setting out (a) particulars of Available-for-Sale Asset; (b) the price of Available-for-Sale Asset offered by the Third Party Buyer; and (c) other material terms.
- II. The Company shall, within five (5) business days after its receipt of Right of First Refusal Notice, serve a notice in writing on the Disposing Member confirming whether the Company agrees or declines to acquire Available-for-Sale Asset at the price and subject to the terms and conditions set out in Right of First Refusal Notice (the “**Right of First Refusal Response Notice**”). Any decision in relation to the Right of First Refusal by the Company shall be made by the Independent Directors and closing of the acquisition of Available-for-Sale Assets by the Group shall be subject to the

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compliance of applicable requirements, disclosure and/or approval procedures under the Listing Rules and any other applicable laws (if necessary).

- III. If the Company shall serve a Right of First Refusal Response Notice on the Disposing Member within the said five-business day period confirming its agreement to acquire Available-for-Sale Asset at the price and subject to the terms set out in Right of First Refusal Notice, then closing of the acquisition of the Available-for-Sale Asset shall take place as soon as practicable after the date of service of Right of First Refusal Response Notice, unless otherwise agreed by Disposing Member and the Company. The exercise of the Right of First Refusal by the Company is subject to the compliance of the Listing Rules and other applicable regulatory requirements, disclosure and/or approval procedures (if necessary).
- IV. If the Company shall serve a Right of First Refusal Response Notice on the Disposing Member within the said five-business day period confirming that it declines to acquire Available-for-Sale Asset at the price and subject to the terms set out in Right of First Refusal Notice or if the Company shall fail to serve a Right of First Refusal Response Notice on the Disposing Member within the said five-business day period (by which the Company shall be deemed to have so declined), then Disposing Member shall be entitled to dispose the Available-for-Sale Asset to the Third Party Buyer with substantially the same terms (including the price of the Available-for-Sale Asset) as set out in the Right of First Refusal Notice.

### ***(D) Undertaking***

SAC Aircraft Leasing Members jointly and severally undertake to the Company and its Subsidiary that they shall not pursue any opportunity to acquire and lease any Asset or acquire and lease any Asset otherwise than pursuant to the Cooperation Framework Agreement.

### **(2) Other Principal Terms**

- (a) Conditions: The Cooperation Framework Agreement shall become effective conditional on the fulfilment of all of the following conditions:
  - (a) the Company having obtained the approval of independent Shareholders in relation to the Supplemental Deed and the Cooperation Framework Agreement; and

## LETTER FROM THE BOARD

(b) all requirements under the Articles and the Listing Rules having been fully complied with in relation to the Supplemental Deed and the Cooperation Framework Agreement.

(b) Term: For a term of three years commencing from 1 January 2019 provided that all the abovementioned conditions are fulfilled by then.

(c) Total Invested Capital: Not exceeding JPY90,000,000,000 (equivalent to approximately HK\$6,210,000,000)

(d) Proposed Annual Caps: The proposed annual caps for the continuing connected transactions under the Cooperation Framework Agreement for the three years commencing from 1 January 2019 and ending on 31 December 2021 are as follows:

*JPY in millions*

Transaction Period	<b>For the year ending 31 December 2019</b>	<b>For the year ending 31 December 2020</b>	<b>For the year ending 31 December 2021</b>
Proposed Annual Caps	30,000	30,000	30,000

(equivalent to approximately HK\$2,070,000,000)

### **(3) Basis for the determination of the proposed annual caps and the pricing policy for the annual caps**

In the estimation of the proposed annual caps, the Company considered the aircraft to purchase based on the investment criteria that (i) the Company intends to purchase mainly the narrow-body aircrafts such as A320, A321, B737-800, A320 NEO, A321 NEO, and B737 MAX8; and wide-body aircrafts such as B787-9 and A350-900 which are popular models in the market of the Aircraft Leasing Business might also be considered; (ii) the Company will consider to purchase the aircraft within about five (5) years from their production and with the remaining lease term of about five (5) years; and (iii) the Company plans to deal with tier 1 and/or tier 2 airlines with good credibility.

Based on the above criteria, the Company plans to purchase mainly five (5) to seven (7) narrow-body aircrafts each year with the maximum of twenty (20) aircrafts for the initial three years from 1 January 2019 to 31 December 2021. The purchasing amount of a narrow-body aircraft would be in the range from JPY4

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billion (equivalent to approximately HK\$276,000,000 to JPY5 billion (equivalent to approximately HK\$345,000,000)) depending upon the age of such aircraft, the creditworthiness of the airline and the terms of the relevant lease agreement.

In the estimation of twenty (20) aircrafts with an increase for the aircrafts to be purchased each year during the initial three (3) years, the Company firstly has taken into account (1) the setup, operation and other fixed costs of operating the Aircraft Leasing Business; (2) the scale of investment to achieve future establishment of the Company's own full-fledged lease management team, so that the Company will not only be able to operate the Aircraft Leasing Business independently without relying on the external service provider, but also provide the relevant services to SAC; and (3) the proposed annual caps to achieve a steady increase of the portfolio of the aircrafts, in order to lower the risk when facing the fluctuation of the market of the Aircraft Leasing Business.

Considering that the price of the aircraft and the rent under a lease agreement largely depends upon the supply and demand dynamics of the market and the conditions for each individual aircraft, each transaction entered into under the Cooperation Framework Agreement shall be negotiated on an arm's length basis. The pricing policy are determined with reference to (1) the expected purchase price of the aircraft made by an external evaluation company and the simulation of projected return considering relevant costs; and (2) the portfolio of aircrafts of the Group including manufacturing year, lease expiration year, airline, region and type of aircraft.

In determining the price range of aircrafts adopted in the estimation of the proposed annual caps, which is in the range of JPY4 billion (equivalent to approximately HK\$276,000,000) to JPY5 billion (equivalent to approximately HK\$345,000,000), the Company has made reference to two quotations of used aircrafts (which are of similar model the Company intended to purchase) obtained by the SAC Aircraft Leasing members from the respective independent third party purchasers in the years of 2016 and 2017. The purchase price contained therewith are all within the suggested range from JPY4 billion to JPY5 billion. As such, the Board is of the view that the proposed range from JPY4 to JPY5 billion is on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The amount payable by the Group for the transactions under the Cooperation Framework Agreement may be funded through the Group's working capital and bank loans from commercial banks as well as other sources of financing available to the Group. The Company has no intention to conduct any fundraising activities through issuing additional equity in the next twelve (12) months.

The compliance measure in relation to the annual caps to be implemented by the Company is set out in the section headed "**INTERNAL CONTROL AND RISK MANAGEMENT MEASURES**" below.

#### **4. INFORMATION OF THE PARTIES**

##### **Information relating to the Company**

The Company, through its Subsidiaries, is principally engaged in the business of pachinko hall operation in Japan.

##### **Information relating to SAC Aircraft Leasing Members**

SAC was incorporated in Hong Kong in 2015 by Mr. Yoji SATO, who is a non-executive Director and a controlling Shareholder of the Company. Currently, SAC has a subsidiary SAIL which carries on Aircraft Leasing Business. SAIL is a company formed under the laws of the Republic of Ireland in 2016.

Please refer to Appendix I to this circular for further details about the financial information of the Company.

#### **5. REASONS FOR ENTERING INTO THE TRANSACTIONS**

##### **(1) Supplemental Deed**

It is anticipated by Boeing Commercial Airplanes in 2018 in the Boeing Current Market Outlook (2018 to 2037) (the “**CMO Report**”) that the world air traffic will grow by 4.7% per annum over the next twenty (20) years. With the substantial increase of the demand for the aircraft leasing every year, the abundant liquidity entered into the Aircraft Leasing Business in the global market, as well as the growing trend of the number of the international tourists, it is anticipated by the Group that the Aircraft Leasing Business is booming and will continue to grow in a steady pace in the coming twenty (20) years.

As disclosed in the Company’s annual report for financial year 2018 (“**FY2018**”), the pachinko hall industry continued to experience a harsh operating environment as a result of the decreasing number of customers in high playing cost halls, while the revenue generated from high playing cost halls accounting for more than half of the total revenue during FY2018. Therefore, the Board considers that while continuing the existing pachinko business, there is a need to explore new business opportunities in order to support the long-term development of the Group. Further, the Company considers that with the stable income generated from the existing pachinko hall industry, the Company shall have the capacity to explore a new business opportunity and diversify the source of revenue.

The SAC Aircraft Leasing Members has entered into the Aircraft Leasing Business for some years and has accumulated substantial know-how, business connection and operating performance in the Aircraft Leasing Business. The Company is able to enter into the aircraft leasing industry with the assistance and consultation from the SAC Aircraft Leasing Members.

## LETTER FROM THE BOARD

With the assistance and cooperation of the SAC Aircraft Leasing Members, the Company plans to set up operations in both Ireland and Hong Kong, in order to enjoy the facilitative measures in relation to the accounting framework and tax regime adopted by both regions in developing Aircraft Leasing Business. Ireland as the global leader in aircraft leasing industry adopts the lowest corporate tax rate. Moreover, with the introduction of the new aircraft leasing tax regime adopted in July 2017, tax concessions to qualifying aircraft lessors and qualifying aircraft leasing managers in Hong Kong have been offered. Under such tax regime, in general, qualifying aircraft lessors are entitled to a tax concession. The profits derived by qualifying aircraft lessors and qualifying aircraft leasing managers from qualifying activities are charged at 8.25%, i.e. one-half of corporate profits tax rate in Hong Kong.

The Directors (excluding the Independent Directors) are of the opinion that the undertakings under the Original Deed, which have unconditionally restricted the Original Covenantors from pursuing any Restricted Activity (including any business contemplated to be carried on by the Group), are unduly restrictive and hinder the expansion of the business of the Group into a new area where referral by the Covenantors and the cooperation between the Covenantors and the Group may be beneficial to the Group. Obviously, adequate protection must be given to the Group for such cooperation in order to ensure that the interest of the Group is not compromised in any way.

As SAC Aircraft Leasing Members have already carried on Aircraft Leasing Business and have accumulated substantial know-how and business connection in the Aircraft Leasing Business, SAC Aircraft Leasing Members can bring business opportunities relating to Aircraft Leasing Business to the Group in the form of referral under Private Deal Opportunity and cooperation under Joint Bid Opportunity which will be beneficial to the Group.

The purpose of the Supplemental Deed is to make certain amendments to the Original Deed in order to facilitate the assistance and referral from the SAC Aircraft Leasing Members and the cooperation between SAC Aircraft Leasing Members and the Group relating to Aircraft Leasing Business as contemplated under the Cooperation Framework Agreement. Adequate protections are given to the Group under the Cooperation Framework Agreement in respect of Joint Bid Opportunity and Private Deal Opportunity as set out above.

At the management level, Mr. Shuhei SATO, a director of SAC, with more than three (3) years of experience in the Aircraft Leasing Business will assume a position with the Group. Mr. Shuhei SATO, as the director of SAC, has directed and supervised multiple transactions of sale and purchase of the aircraft, by which he has overseen the essential process of such transaction including sourcing, negotiating the letter of intent, due diligence and other works.

## LETTER FROM THE BOARD

Meanwhile, Mr. Mitsutoshi KATO, the Independent Director, has extensive experience in the field of aircraft leasing and financing. Mr. Mitsutoshi KATO was vice president of asset based finance team at Banque Indosuez (now Credit Agricole CIB) and started aircraft financing and leasing activities at its Tokyo branch for more than ten (10) years since 1991, during such time he was responsible for marketing and arranged various aircraft financing deals with Chinese major airlines such as Air China and China Southwest Airlines for Boeing and Airbus aircraft, for both narrow and wide body. Further, the Group has a plan to employ a person who has more than thirty (30) years experience and has acted as director of many aircraft lessors to be the director of a Subsidiary. The Group will also employ a person who has about ten (10) years experience and a former director of an aircraft lessor which managed about fifty (50) aircrafts.

With employing the aircraft leasing specialist and adequate internal training, the Group envisages to build up a strong management team in supervising the effective operation of the Aircraft Leasing Business.

Based on the above factors, the Directors (excluding the Independent Directors, whose opinion is set out in the section headed "Letter from the Independent Board Committee" on this circular) believe that the Supplemental Deed and the Proposed Amendments contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **(2) Cooperation Framework Agreement**

The Company is of the view that, with the substantial increase of the aircraft leasing activities ever year and the abundant liquidity in the global market, the Aircraft Leasing Business is booming and will continue to grow in a steady pace in the coming years.

Facing the increasing competition in the aircraft leasing market, the Company considers that the Cooperation Framework Agreement will provide a framework where the Company is able to enter into the Aircraft Leasing Business with the referral of the business opportunity by and cooperation with SAC Aircraft Leasing Members.

In particular, according to the arrangement under the Private Deal Opportunity, the Company is able to utilize the business connection developed by the SAC Aircraft Leasing Members through the years. With the permission of the seller, the Company has the right to share the information of target aircrafts under a proposed transaction and determine whether the Company would step into the position of SAC Aircraft Leasing Members as the purchaser of the target aircrafts.

## LETTER FROM THE BOARD

Regarding the arrangement under the Joint Bid Opportunity, the Company is of the view that by forming the Joint Bid Team with the SAC Aircraft Leasing Members, the Company is able to bid for and take up certain projects jointly with the SAC Aircraft Leasing Members by leveraging on their respective business strengths and/or resources, which will help to improve the Company's position in bidding for the aircrafts intended by the Company through appropriate cooperation with the SAC Aircraft Leasing Members and enhance the Company's competitiveness to bid for, and its chance to win the bid for the target aircrafts. This will provide the Company with more opportunities to participate in Joint Bid Opportunities without having any adverse impact on the Company's interests.

The Board envisages that both the Private Deal Counterparty and Joint Bid Counterparty are independent third parties of the Company and its connected persons. The closing of the Private Deal Opportunity and Joint Bid Opportunity shall be subject to the compliance of the applicable regulatory requirements, disclosure and/or approval procedure under the Listing Rules and any other applicable laws (if necessary).

Based on the above factors, the Directors (excluding the Independent Directors, whose opinion is set out in the section headed "Letter from the Independent Board Committee" on this circular) believe that the Cooperation Framework Agreement and the transactions proposed thereunder is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **6. INTERNAL CONTROL AND RISK MANAGEMENT MEASURES**

The main internal control and risk management measures of the Company are set out as follows:

#### **(1) Cooperation Framework Agreement**

Recognizing that potential competition may exist between the activities to be carried out by the SAC Aircraft Leasing Members and the Company (and/or through its Subsidiaries) in respect of the Aircraft Leasing Business, as disclosed above, sufficient compliance measures are provided under the Cooperation Framework Agreement, in order to safeguard the interest of the Company.

Under the Private Deal Opportunity, upon receipt of the Private Deal Notice, the Independent Directors shall have the power to determine whether the Company (and/or its Subsidiary) shall become the purchaser or lessor under the Private Deal Opportunity and execute the Private Deal LOI in place of or in addition to the SAC Aircraft Leasing Member. Moreover, the Independent Directors have the power to determine whether the SAC Aircraft Leasing Members are able to pursue the Private Deal Opportunity when the Private Deal Counterparty refuses to disclose the Private Deal Information to the Company (and/or its Subsidiary) or does not accept the Company (and/or its Subsidiary) may be the relevant purchaser.

## LETTER FROM THE BOARD

Under the Joint Bid Opportunity, the Company (and/or its Subsidiary) shall have the right to make a decision regarding whether to participate in a bidding opportunity and whether to form a Joint Bid Team with the SAC Aircraft Leasing Members. Further, the Company (and/or its Subsidiary) shall have the first choice over the number and type of aircraft which it would wish to acquire or lease out of all the aircrafts available for bidding. Also, if the number of aircraft awarded under the joint bid shall fall short of the number of aircraft which the Joint Bid Team intended to bid for, the Company (and/or its Subsidiary) shall have the priority to acquire or lease the number and type of aircraft which it undertakes to acquire and lease initially. Upon receipt of the Joint Bid LOI Notice, the Independent Directors shall notify the Joint Bid Team of their decision of whether to execute the Joint Bid LOI.

In assessing whether or not to pursue the Private Deal Opportunity and the Joint Bid Opportunity, the Independent Directors should consider all relevant factors, including feasibility studies, estimated profitability, market, commercial and counterparty risks, compliance with the business strategy of the Group, possible synergy with the Group's operation, the financial resources available to the Group and the qualifications and/or eligibility the Group has at that time, as well as the relevant legal, regulatory and contractual requirements, with a view to arrive at a decision which is in the best interest of the Company and the Shareholders as a whole.

### **(2) the Amended Deed**

Save and except for the right of the Independent Directors to obtain the relevant information and the power to make relevant decisions under both the Private Deal Opportunity and the Joint Bid Opportunity as aforementioned, the Company will adopt the following additional procedures to monitor the Undertakings under the Amended Deed are being observed:

- (a) the Board will establish a committee comprising all of the Independent Directors which will be delegated with the authority to review on an annual basis the Undertakings from the Covenantors and to evaluate the effective implementation of the Amended Deed; and
- (b) each of the Covenantors undertakes to provide all information necessary for the annual review by the committee comprising the Independent Directors and the enforcement of the Amended Deed, and to provide an annual confirmation on the compliance of the Amended Deed for the inclusion in the annual report of the Company.

### **(3) the proposed annual caps**

The personnel in the financial department of the Company will be responsible for collecting the financial information in relation to each transaction under the Cooperation Framework Agreement.

## LETTER FROM THE BOARD

The Independent Directors shall pursuant to Rule 14A.55 of the Listing Rules, conduct annual review of the continuing connected transactions under the Cooperation Framework Agreement and confirm in the annual report of whether such transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms of the related agreements are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

The auditors of the Company will also conduct an annual review on the continuing connected transactions and the compliance of the purchasing policy of the Asset purchased under the Cooperation Framework Agreement and provide auditors confirmation in accordance with Rule 14A.56 of the Listing Rules.

The audit committee (the “**Audit Committee**”) of the Company is responsible for reviewing the financial information including but not limited to the relevant information in relation to the Cooperation Framework Agreement, and monitoring the integrity of the financial statements. In addition, the Audit Committee is to oversee the financial reporting process, risk management and internal control systems. The Group will regularly carry out the internal audits and implement the whistleblower system to avoid material internal control defects.

The group internal control committee is responsible for monitoring, collecting and evaluating the detailed information of the major and continuing connected transactions under the Cooperation Framework Agreement, including but not limited to the implementations of the payment arrangements and actual transaction amount under the specific transactions on a monthly basis to ensure the relevant transactions are conducted in compliance with the Cooperation Framework Agreement.

Taking into account of: (i) the sufficient compliance measures provided under the Cooperation Framework Agreement; (ii) the above methods and procedures comprise necessary components of an internal control system with designated department and responsible officer, clear approval process and monitoring system; and (iii) the abovementioned review procedures can ensure that the transactions will be executed in compliance with the Cooperation Framework Agreement and the Supplemental Deed, the Directors are of the view that the Company has implemented effective internal control and risk management measures, and such methods and procedure can ensure that the terms and the proposed annual caps for the transactions contemplated under the Cooperation Framework Agreement and the Supplemental Deed are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

## **7. IMPLICATIONS UNDER THE LISTING RULES**

### **(1) The Supplemental Deed**

As at the Latest Practicable Date, the Covenantors (excluding SAIL) to the Supplemental Deed are substantial Shareholders and connected persons of the Company as defined under the Listing Rules. Entering into the Supplemental Deed constitutes a connected transaction under Chapter 14A of the Listing Rules which is subject to the reporting, announcement and independent Shareholders' approval requirement under the Listing Rules.

Mr. Yoji SATO (a non-executive Director) is a director of SAC. Mr. Kohei SATO (Director and chairman of the Board), is a member of the SATO Family Members. Mr. Yoji SATO and Mr. Kohei SATO are both Covenantors of the Supplemental Deed and are regarded as having material interests in the Supplemental Deed and therefore they have abstained from voting on relevant resolution(s) at the meeting of the Board convened for the purpose of approving the Supplemental Deed and the Proposed Amendments contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the Supplemental Deed and the Proposed Amendments contemplated thereunder.

An Independent Board Committee comprising all five (5) Independent Directors has been formed to advise the relevant independent Shareholders in respect of the Supplemental Deed and the Proposed Amendments contemplated thereunder. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the independent Shareholders in respect of the Supplemental Deed and the Proposed Amendments contemplated thereunder.

### **(2) The Cooperation Framework Agreement**

As at the Latest Practicable Date, SAC holds more than 30% of the issued share capital of the Company and is a connected person of the Company as defined under the Listing Rules. The transactions under the Cooperation Framework Agreement is on a recurring basis. Accordingly, entering into the Cooperation Framework Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the transactions contemplated under the Cooperation Framework Agreement based on the proposed annual caps exceeds 25% but is less than 100%, the transactions under the Cooperation Framework Agreement constitute major transactions, thus are subject to (1) the reporting, announcement, circular, independent Shareholders' approval and annual review requirement under the Listing Rules; and (2) the requirements applicable to major transactions under Chapter 14 of the Listing Rules.

## LETTER FROM THE BOARD

Mr. Yoji SATO (a non-executive Director) is a director and majority shareholder of SAC. Mr. Kohei SATO (Director and chairman of the Board), is a member of the SATO Family Members. Both Mr. Yoji SATO and Mr. Kohei SATO are regarded as having material interests in the Cooperation Framework Agreement and therefore both of them have abstained from voting on relevant resolution(s) at the meeting of the Board convened for the purpose of approving the Cooperation Framework Agreement. Save as disclosed above, none of the Directors has a material interest in the Cooperation Framework Agreement.

An Independent Board Committee comprising all five (5) Independent Directors has been formed to advise the independent Shareholders in respect of the Cooperation Framework Agreement and the transactions contemplated thereunder. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the independent Shareholders in respect of the Cooperation Framework Agreement.

### **8. EGM**

The EGM will be held for the purpose of considering and, if thought fit, approving the relevant ordinary resolution(s) in respect of the Supplemental Deed and the Cooperation Framework Agreement. Any Shareholder with a material interest in the relevant transactions as contemplated under the ordinary resolutions and his close associate will abstain from voting on the relevant resolutions approving the said transactions.

The EGM will be convened by the Company to seek the approval of the independent Shareholders on, among other things, (1) entering into the Supplemental Deed and the Proposed Amendments contemplated thereunder; and (2) entering into the Cooperation Framework Agreement by way of a poll.

Since each of Mrs. Keiko SATO (wife of Mr. Yoji SATO), Mrs. Yaeko NISHIWAKI (sister of Mr. Yoji SATO) and her associate, Mr. Masahiro SATO (brother of Mr. Yoji SATO), Mr. Shigehiro SATO (brother of Mr. Yoji SATO), and Mr. Kohei SATO (brother of Mr. Yoji SATO) is a party acting in concert with Mr. Yoji SATO, SAC and Rich-O and each other to obtain or consolidate the holding of 30% or more of the Company, and is therefore deemed to be interested in the Shares in which Mr. Yoji SATO or any other SATO Family Member is interested, and Mr. Yoji SATO is deemed to be interested in the Shares in which any SATO Family Member is interested.

Accordingly, as each of Mr. Yoji SATO, SATO Family Members as well as SAC and Rich-O is regarded as having material interests in the Supplemental Deed, all of them shall abstain from voting at the EGM for the proposed resolution to approve the Supplemental Deed. As each of SAC, Rich-O, Mr. Yoji SATO and SATO Family Members is regarded as having material interests in the Cooperation Framework Agreement, all of them shall abstain from voting at the EGM for the proposed resolution to approve the Cooperation Framework Agreement. To the best of the Directors' knowledge and information after having made all reasonable enquires, no

## LETTER FROM THE BOARD

other Shareholder is required to abstain from voting at the EGM for the proposed resolutions to approve the Supplemental Deed and the Proposed Amendments contemplated thereunder and the Cooperation Framework Agreement.

The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular. If you do not intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy to the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. The completion and delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### **9. VOTING BY POLL**

All the resolutions set out in the notice of the EGM would be decided by poll in accordance with the Listing Rules and the Articles. On a poll, every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy shall have one vote for every fully paid Share held. A Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy who is entitled to more than one vote need not use all his/its votes or cast all his/its votes in the same way. After the conclusion of the EGM, the poll results will be published on the website of the Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at <http://www.dyjh.co.jp/>.

### **10. RECOMMENDATION**

The Directors are of the opinion that the terms of the Supplemental Deed and the Proposed Amendments thereunder and the terms of the Cooperation Framework Agreement and the proposed annual caps for the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM.

## LETTER FROM THE BOARD

### 11. GENERAL

The Board wishes to emphasize that the completion of the Proposed Amendment and the transactions under the Cooperation Framework Agreement are subject to the satisfaction of the respective conditions precedent as set out in the Supplemental Deed and the Cooperation Framework Agreement.

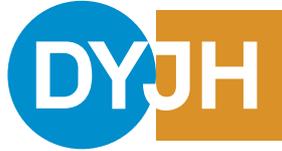
As the completion is subject to the satisfaction of the conditions, the Cooperation Framework Agreement may or may not proceed to completion. Accordingly, the Shareholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company.

### 12. FURTHER INFORMATION

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

By order of the Board  
**DYNAM JAPAN HOLDINGS Co., Ltd.**  
**Kohei SATO**  
*Chairman of the Board*

Tokyo, Japan, 28 November 2018



**DYNAM JAPAN HOLDINGS Co., Ltd.**

*(incorporated in Japan with limited liability)*

**(Stock Code: 06889)**

28 November 2018

*To the independent Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION:  
PROPOSED AMENDMENTS TO  
THE ORIGINAL DEED OF NON-COMPETITION;  
(2) MAJOR AND CONTINUING CONNECTED TRANSACTION:  
COOPERATION FRAMEWORK AGREEMENT;  
AND  
(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING IN 2018**

We refer to the circular issued by the Company to the Shareholders dated 28 November 2018 (the “**Circular**”), of which this letter forms part. Terms defined in the circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise the independent Shareholders in respect of (1) the terms of the Supplemental Deed and the Proposed Amendments contemplated thereunder; and (2) the terms of the Cooperation Framework Agreement and the proposed annual caps for the transactions contemplated thereunder. None of us has any material interest in the Supplemental Deed and the Cooperation Framework Agreement.

We wish to draw your attention to the letter from the Board on pages 7 to 26 of the Circular which set out details of the Supplemental Deed and the Cooperation Framework Agreement. We also wish to draw your attention to the letter from the Octal Capital on pages 29 to 44 of the Circular, which contains, inter alia, its advice and recommendation regarding the terms of the Supplemental Deed and the Proposed Amendments contemplated thereunder and the terms of the Cooperation Framework Agreement and the proposed annual caps for the transactions contemplated thereunder.

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the principal factors and reasons considered by and the advice of the Independent Financial Adviser as set out in the Circular, we are of the view that (i) the terms of the Supplemental Deed and the Proposed Amendments are not in the ordinary and usual course of business of the Company, fair and reasonable so far as the independent Shareholders are concerned; and (ii) the terms of the Cooperation Framework Agreement and the proposed annual caps for the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Supplemental Deed and the Proposed Amendments contemplated thereunder; and the Cooperation Framework Agreement and the proposed annual caps for the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
the Independent Board Committee of  
**DYNAM JAPAN HOLDINGS Co., Ltd.**  
**Mr. Ichiro TAKANO, Mr. Mitsutoshi KATO, Mr. Thomas  
Chun Kee YIP, Mr. Kei MURAYAMA and Mr. Kiyohito KANDA**  
*Independent non-executive Directors*



801–805, 8/F, Nan Fung Tower  
88 Connaught Road Central  
Hong Kong

28 November 2018

*To the Independent Board Committee and the independent Shareholders*

Dear Sirs or Madams,

**CONNECTED TRANSACTION:  
PROPOSED AMENDMENTS TO THE ORIGINAL  
DEED OF NON-COMPETITION;  
AND  
MAJOR AND CONTINUING CONNECTED TRANSACTION:  
COOPERATION FRAMEWORK AGREEMENT**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in respect of the Supplemental Deed and the Cooperation Framework Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 28 November 2018 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As set out in the Letter from the Board, on 26 September 2018, (i) the Company and the Covenantors entered into the Supplemental Deed to amend the Original Deed; and (ii) the Company entered into the Cooperation Framework Agreement with the SAC Aircraft Leasing Members. On 21 November 2018, the Company and the SAC Aircraft Leasing Members entered into the Supplemental Agreement to amend the terms relating to the Total Invested Capital under the Cooperation Framework Agreement.

As at the Latest Practicable Date, each of the Covenantors is a Controlling Shareholder of the Company and thus is a connected person of the Company as defined under the Listing Rules. The entering into of the Supplemental Deed constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules which is subject to the reporting, announcement and independent Shareholders’ approval requirements under the Listing Rules.

Likewise, SAC (including SAC Aircraft Leasing Members), as a Controlling Shareholder, is a connected person of the Company as defined under the Listing Rules. The transactions under the Cooperation Framework Agreement constitute

## LETTER FROM OCTAL CAPITAL

continuing connected transactions of the Company under Chapter 14A of the Listing Rules which is subject to the reporting, announcement and independent Shareholders' approval requirements under the Listing Rules.

Further, as the highest applicable percentage ratio in respect of the transactions contemplated under the Cooperation Framework Agreement based on the proposed annual caps exceeds 25% but is less than 100%, the transactions under the Cooperation Framework Agreement constitute major transactions of the Company, and therefore is subject to (1) the reporting, announcement and approval by the independent Shareholders and annual review requirements under the Listing Rules; and (2) the requirements applicable to major transactions under Chapter 14 of the Listing Rules.

The Independent Board Committee comprising all five Independent Directors has been formed to consider and advise the independent Shareholders in respect of (1) the terms of the Supplemental Deed; and (2) the terms of the Cooperation Framework Agreement and the transactions contemplated thereunder.

We, Octal Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders on the Supplemental Deed and the Cooperation Framework Agreement in this regard. We are not connected with the Directors, chief executive and substantial shareholders of the Company or the Covenantors or the SAC Aircraft Leasing Members or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the independent Shareholders. In the last two years, we have not acted in any financial adviser role to the Company in any way. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Company or the Covenantors or the SAC Aircraft Leasing Members or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group and the SAC Aircraft Leasing Members, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We

## LETTER FROM OCTAL CAPITAL

have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Covenantors, the SAC Aircraft Leasing Members and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Supplemental Deed and the Cooperation Framework Agreement, we have considered the following principal factors and reasons:

#### 1. INFORMATION ON THE GROUP

The Company, incorporated in Japan on 20 September 2011, is an investment holding company and its shares are listed on the Exchange. The Group is principally engaged in the operation of pachinko halls business in Japan.

As at 30 September 2018, the Group had a total of 450 halls in operation and it has developed into the largest pachinko hall operator in terms of the number of halls in the industry in Japan. The Group operated two types of halls with different playing costs and focuses on promoting low playing cost games. Based on the public information available in the Exchange website, set out below is a summary of the audited consolidated financial information of the Group for the years ended 31 March 2016, 2017 and 2018 and the unaudited consolidated financial information of the Group for the six months ended 30 September 2017 and 2018, which were prepared in accordance with the International Financial Reporting Standards:

Expressed in ¥ million	For the year ended 31 March			For the six months ended	
	2016	2017	2018	30 September	
	(Audited)	(Audited)	(Audited)	2017 (unaudited)	2018 (unaudited)
Revenue	155,911	156,869	152,092	77,211	73,583
Operating Expenses	145,929	150,194	144,201	72,930	66,079
Other Income	8,184	9,224	9,458	4,441	4,764
Operating Profit	18,166	15,899	17,349	8,722	12,268
Profit after taxation	10,539	9,305	10,925	5,434	8,325
Profit attributable to the owners of the Company	10,544	9,360	10,870	5,430	8,340

*Source: Annual reports and interim results announcement of the Company*

For the year ended 31 March 2017 (the “FY2017”), the Group recorded revenue of approximately ¥156,869 million, representing an increase of approximately ¥958 million or 0.6% over the corresponding period of last year, mainly due to (i) the increase in revenue margin from approximately 18.5% to 19.2%; and (ii) the increase in revenue generated from low playing cost halls of approximately ¥3,736 million, partly offset by

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the decrease in revenue generated from high playing cost halls of approximately ¥2,778 million. As a result of the increase of the operating expenses by approximately ¥4,265 million or 2.9% for the FY2017, primarily attributable to the increase of the hall operating expenses for low playing cost halls, the Group's operating profit for the FY2017 decreased by approximately ¥2,267 million or 12.5% to ¥15,899 million.

For the year ended 31 March 2018 (the “FY2018”), the Group recorded revenue of approximately ¥152,092 million, representing a decrease of approximately ¥4,777 million or 3.0% over the corresponding period of last year, mainly due to (i) the decrease in revenue generated from high playing cost halls of approximately ¥3,637 million; and (ii) the decrease in revenue generated from low playing cost halls of approximately ¥1,140 million. As a result of the decrease of the operating expenses by approximately ¥5,993 million or 4.0% for the FY2018, primarily attributable to the decrease in hall operating expenses for high playing cost halls, the Group's operating profit for the FY2018 increased by approximately ¥1,450 million or 9.1% to ¥17,349 million.

For the six months ended 30 September 2018 (the “1H2018/19”), the Group recorded revenue of approximately ¥73,583 million, representing a decrease of approximately ¥3,628 million or 4.7% over the corresponding period of last year, mainly due to (i) the decrease in revenue generated from high playing cost halls of approximately ¥2,690 million; and (ii) the decrease in revenue generated from low playing cost halls of approximately ¥938 million. As a result of the decrease of the operating expenses by approximately ¥6,851 million or 9.4% for the 1H2018/19, primarily attributable to the decrease in hall operating expenses for both high playing cost halls and low playing cost halls, the Group's operating profit for the 1H2018/19 increased by approximately ¥3,546 million or 40.7% to ¥12,268 million.

Expressed in ¥ million	As at 31 March			As at
	2016 (Audited)	2017 (Audited)	2018 (Audited)	30 September 2018 (unaudited)
Total assets	189,184	205,115	184,971	187,315
— Cash and cash equivalents	28,134	48,499	40,533	44,921
Total liabilities	56,565	68,234	47,456	45,047
Net assets	132,619	136,881	137,515	142,268
Gearing ratio	11.0%	14.7%	4.6%	2.8%

*Source: Annual reports and interim results announcement of the Company*

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As at 31 March 2016, 2017, 2018 and 30 September 2018, the Group recorded net assets of exceeding ¥130 billion per year. The gearing ratio, which is calculated as total borrowings divided by total assets, significantly decreased from 14.7% as at 31 March 2017 to 4.6% as at 31 March 2018 and further decreased to 2.8% as at 30 September 2018, primarily due to the decrease in total borrowings.

In respect of the cash flow of the Group, since the listing on the Exchange in 2012, the Group has recorded net cash generated from operating activities ranging from ¥24.1 billion to ¥28.3 billion (with an exception of ¥13.4 billion in the year ended 31 March 2015, mainly as a result of the decrease in revenue generated from the high playing cost halls and the increase in general and administrative expenses during the period), resulting in a stable trend of operating cash inflow since the listing. The Group's net cash used in investing activities decreased from ¥22.5 billion for the year ended 31 March 2014 to ¥4.2 billion for the year ended 31 March 2018, primarily due to the actions taken by the Group to reduce the number of new halls to open during the shrinking industry market size, as such there has been a downward trend of cash outflow generated from investing activities of the Group.

Based on the above, we consider the Group is financially sound and its existing business operation has been generating stable cash flow over the years and the Group can utilise surplus funds to support its future business development.

### **2. INFORMATION ON SAC**

SAC is a Controlling Shareholder of the Company incorporated in Hong Kong with limited liabilities in September 2015 and Mr. Yoji SATO is the sole shareholder of SAC. Mr. Yoji SATO is also a director of the Company. Currently, SAC has a subsidiary SAIL which specializes in aircraft leasing business and owns three aircrafts at this moment and plans to hold a maximum of approximately 10 aircrafts in the future. The core team consists of a total of five members, with an average of approximately 10 years' experience in aircraft leasing business, and SAIL engages experienced team of professionals to perform full range lease management.

### **3. REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL DEED**

As set out in the Letter from the Board, the Directors (excluding the independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee contained in this Circular) consider that the restriction under the undertaking under the Original Deed on the Original Covenantors, which unconditionally restricts them from pursuing any Restricted Activity (including any business contemplated to be carried on by the Group), are unduly restrictive and hinder the expansion of the business of the Group into a new area where referral by the Covenantors and the cooperation between the Covenantors and the Group may be beneficial to the Group. Moreover, as SAC Aircraft Leasing Members have already carried on Aircraft Leasing Business since 2015 and have accumulated substantial

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know-how and business connection in the Aircraft Leasing Business, the Director are of the view that SAC Aircraft Leasing Members can bring business opportunities relating to Aircraft Leasing Business to the Group which will be beneficial to the Group.

As disclosed in the Company's annual report for FY2018, the pachinko hall industry continued to experience a harsh operating environment as a result of the decreasing number of customers in high playing cost halls, while the revenue generated from high playing cost halls accounting for more than half of the total revenue during FY2018. Moreover, in early 2018, the Japanese government imposed anti-addiction measures, strengthened the regulations on the playing machines by among others, reducing the maximum payouts of pachinko machine per jackpot. Therefore, in order to promote further business development of the Group, the Board considers that while continuing the existing pachinko business which is at the mature stage of development, there is a need to explore new business opportunities in order to support the long-term development of the Group. Taking into account the know-how, business connection and operating performance in the aircraft leasing business of the SAC Aircraft Leasing Members as well as investment objectives, financial resources and risk tolerance of the Group, the Company intends to tap into the Aircraft Leasing Business with the support from the SAC Aircraft Leasing Members.

As advised by the Company, the Total Invested Capital will be mainly funded by idle cash and bank borrowings. Based on our analysis set out in the section headed "Information of the Group" above, in view of the stable trend of net cash generated from operating activities together with the decreasing trend of net cash used in investing activities, the Group will have certain level of idle cash for its future business development. Besides, we note that the gearing ratio of the Group was approximately 2.8% as at 30 September 2018, implying that the Group shall have capacity to obtain debt financing to support the Aircraft Leasing Business. Having taken into account the presence of idle cash and sufficient room for the Company to increase the debt borrowing level, it is believed by the management that the investment in aircraft leasing will not exert significant cash flow pressure to the operation of the Company.

According to Boeing Current Market Outlook (2018–2037) (the "**CMO Report**"), issued by Boeing Commercial Airplanes in 2018, the world air traffic is predicted to grow by 4.7% per annum over the next 20 years. The CMO Report also forecasts that the air traffic in the Asia Pacific region is expected to record an annual growth rate of 5.7% per annum, from 2018 to 2037. It is estimated that in 2037 the number of operating aircraft will reach 48,540, twice of the current fleet size (24,400), given the need of transportation aircraft will increase based on the increase in the number of air passengers. Of that number, due to the need of replacing existing aircraft and expanding business, it is estimated that 42,730 new aircraft will be required. Therefore, future demand of aircraft leasing is expected to be sustainable. In addition, according to the World Tourism Organization, international tourist arrivals grew 7.1% in 2017, which was faster than overall GDP growth. Like air passenger traffic, overall tourism has grown substantially, with almost 350 million more international tourists in 2017 than 2010. This trend is projected to continue, with the direct contribution of tourism and travel to global GDP expected to grow 4% per year in real terms in the next 10

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years, according to the World Tourism and Travel Council. The outlook for strong air travel demand is consistent with broad consumer demand trends and travel and tourism outlooks.

With reference to the Letter from the Board, the Company plans to set up operations in both Ireland and Hong Kong, in order to enjoy the facilitative measures in relation to the accounting framework and tax regime adopted by both regions in developing Aircraft Leasing Business. We noted that both Ireland and Hong Kong have adopted similar tax regimes which provide tax concessions to aircraft lessors in those regions. In Ireland, qualifying aircraft lessors are entitled to claim tax depreciation on the cost of aircraft to offset its lease rentals income and eligible to pay a corporate tax rate of 12.5%, which is half of the ordinary corporate tax rate of 25%. In Hong Kong, qualifying aircraft lessors are entitled to tax concessions under which they will be taxed on 20% of their gross leasing income less deductible expenses and eligible to pay tax at 8.25%, which is half of the 16.5% corporate tax rate. If the Group commences the Aircraft Leasing Business in other countries which have no similar tax regimes for leasing business, the Group's overall tax burden to operate the Aircraft Leasing Business will be higher. As such, it is expected that the Group can enjoy above tax benefits after entering into the Supplemental Deed and being qualified as a aircraft lessor in Ireland and/or Hong Kong. Moreover, we have researched on the aircraft leasing industry and found that the key players in the industry have also established operations in Ireland and/or Hong Kong. Therefore it is not uncommon for the Company to set up operations in Ireland and Hong Kong to commence the Aircraft Leasing Business.

We have understand from the management regarding the business plan of the Aircraft Leasing Business, the Company at the initial stage intends to increase the number of the aircrafts it holds with the assistance of an external service provider. With the increase of the aircrafts it holds, the Company intends to hire more internal team members, and after it has come to hold certain volume of aircrafts, the Company intends to (i) form a full-fledged team which has different functions consisting central management, sourcing department, execution department and booking department; (ii) hire expertise who possesses knowledge and experience in Aircraft Leasing Business as senior management of the Company's Aircraft Leasing Business; (iii) provide internal training to the team to ensure the employees can cope with the newly established Aircraft Leasing Business; and (iv) seek consultation from the SAC Aircraft Leasing Members which is familiar to the aircraft leasing industry to ensure operational efficiency and economics of scale. The target customers of the Aircraft Leasing Business are mainly tier 1 and/or tier 2 global airlines in which the Company will assess their background and creditability before commencing business relationship, in order to lower the credit risk that the Company exposed to, and ensure a stable source of income to the Group. Upon comparison the cost of raising capital and the estimated yield of the investment in aircrafts, the Company believes that the return on equity from the investment in the Aircraft Leasing Business will be in the range from 5.0% to 10.0%, depending on the model and condition of aircrafts to be leased. Further, the target customers are global airlines in Europe and Asia, the Company aims to diversify the airlines rather than targeting airlines in certain area or rely on single airline so as to

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avoid risk caused in cases of emergency. It is believed by the management that the entering into the Supplemental Deed and Cooperation Framework Agreement will result in a positive yield and provide a stable income to the Company.

However, the Original Deed aiming to eliminate and reduce the prospects of conflicts of interests between the Group and the Original Covenantors and their respective associates disallows the Original Covenantors and their respective associates to carry on, participate or be interested or engaged in or acquire or hold any activity or business that is or may be in direct or indirect competition with the business carried on or contemplated to be carried on by any member of the Group (the “**Restricted Activity**”). As the Aircraft Leasing Business is contemplated to be carried out by the Group, it is considered as a Restricted Activity, and therefore under the Original Deed, SAC and its associates are restricted from carrying out the Aircraft Leasing Business which is considered to be in competition with the Aircraft Leasing Business contemplated to be carried out by the Group.

Further, pursuant to clause 3.1(b) of the Original Deed, the Original Covenantors has undertaken to the Company that, the Original Covenantors and their respective associates shall inform the Company in writing as soon as practicable whenever the Original Covenantors or their respective associates is given or identifies any opportunities that is or may be in direct or indirect competition with the Restricted Activity, and whether or not the Company determines to pursue them, the Covenantors are restricted to take up such new business opportunities. Furthermore, none of the Original Covenantors shall be permitted to take up any such new business opportunities whether or not the Company determines to pursue them, for as long as the undertaking in clause 3.1 (a) remain in effect.

On the other hand, under the Original Deed, SAC Aircraft Leasing Members would be compelled to abandon some potential new business opportunities in aircraft leasing in the future. Upon the entering into the Aircraft Leasing Business of the Group, those abandoned potential new business opportunities might be captured by the Group’s competitors which in turn would negatively influence the Group’s competitive strength as well as financial performance in future.

Based on above, we consider that the Supplemental Deed, facilitates the assistance and referral from SAC Aircraft Leasing Members and the cooperation between the SAC Aircraft Leasing Members and the Group relating to Aircraft Leasing Business as contemplated under the Cooperation Framework Agreement, allowing the SAC Aircraft Leasing Members to participate in Aircraft Leasing Business, enables the Group to enjoy SAC Aircraft Leasing Members’ business connections in the Aircraft Leasing Business and provides flexibility for the Group to pursue business opportunities in order to implement its business strategies and achieve sustainable growth.

Having considered (i) the future potential growth of the Aircraft Leasing Business; (ii) the entering into the Aircraft Leasing Business to achieve business diversification; (iii) the potential tax benefits available to qualified aircraft lessors in Ireland and Hong

Kong; (iv) the potential positive yield and stable income from the Aircraft Leasing Business; and (v) the Supplemental Deed enabling the Group to participate the Aircraft Leasing Business by leveraging the SAC Aircraft Leasing Members' industry experience and business network in the aircraft leasing industry, we concur with the Company that the entering into the Supplemental Deed, which allows the Group and the SAC Aircraft Leasing Members to participate in the Aircraft Leasing Business together, is in the interest of the Company and the Shareholders as a whole.

#### **4. REASONS FOR AND BENEFITS OF ENTERING INTO THE COOPERATION FRAMEWORK AGREEMENT**

The Cooperation Framework Agreement provides a framework where the SAC Aircraft Leasing Members are able to refer business opportunities to and cooperate with the Company on business opportunities relating to the Aircraft Leasing Business with adequate protection for the Group. Under the Private Deal Opportunity, the Company will be able to access to business opportunities relating to the Aircraft Leasing Business in the form of referral from SAC Aircraft Leasing Members' business network, this will provide a strong foundation to the newly established Aircraft Leasing Business of the Company. Under the Joint Bid Opportunity, the Company is able to participate bidding of aircraft to access opportunities in acquiring aircrafts, while the Group can reserve the right to decide the number and type of aircrafts it wishes to bid for. As advised by the Company, in aircraft bidding transactions, it is beneficial for the purchaser to acquire several aircrafts at a time to get a bargain on the transaction price, hence lowering the capital expenditure of the Company. Moreover Aircraft Leasing Business has long be regarded as an industry with a high entry barrier for new companies to enter, the Cooperation Framework Agreement allows the Group to enter the industry with the assist of the SAC Aircraft Leasing Members and accumulate valuable experience in the industry for future development. Given the strong background, solid experience in the aircraft leasing industry and sound financial conditions of the SAC Aircraft Leasing Members, the cooperation with the SAC Aircraft Leasing Members under the Cooperation Framework Agreement can enable the Group to (i) gain access to various opportunities in acquiring aircrafts; (ii) penetrate the aircraft leasing market which has high entry barrier; and (iii) accumulate precious aircraft leasing experience for future expansion in the business.

In view of above, we concur with the Directors that the Cooperation Framework Agreement, maintaining the competitive edge of the Group by providing flexibility for the Group to pursue business opportunities, is in the interest of the Company and the Shareholders as a whole.

#### **5. THE TERMS OF SUPPLEMENTAL DEED**

Pursuant to the Supplemental Deed, SAC and SAIL shall be included as Additional Covenantors to the Amended Deed and they shall be bounded by the Amended Deed. The scope of the exceptions to the Undertakings is further expanded to cover (i) any activity or business to be carried on by any member of SAC Aircraft Leasing Members and their respective associates (other than a member of the Group) pursuant to

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Cooperation Framework Agreement; and (ii) the acquisition, holding and disposal of any interests by any SAC Aircraft Leasing Member and their respective associates (other than a member of the Group) in any company which conducts or engages in Aircraft Leasing Business, any aircraft, and any aircraft lease.

As set out in the Letter from the Board, the Non-Competition Undertaking was given almost six years ago, and the practice in Hong Kong in connection with managing competition between a Hong Kong listed issuer and its controlling shareholder(s) has been evolving ever since. At present, it is not uncommon that a controlling shareholder of a company listed on the Exchange be permitted, under the non-competition arrangement between itself and the listed issuer, to pursue any Restricted Activity after certain procedures are followed and certain conditions are satisfied. Accordingly, we have identified (to the best of our knowledge) a list of comparable companies (the “**Comparables**”) which are (i) newly listed three months prior to and including the date of the Proposed Amendments to the Original Deed for Non-competition; and (ii) listed on the Main Board of the Exchange, and we reviewed the terms of deed of non-competition as disclosed in the prospectuses of the Comparables. The list of Comparables is an exhaustive list and we are of the opinion that the three-month period is sufficient and representative to illustrate the recent trend and terms under common market practice. We noted that 34 out of 48 identified samples, which is approximately 70.8% of the newly listed companies in the last three months, have the mechanism similar to the mechanism for the relevant controlling shareholders to present or offer any relevant new business opportunities to the listed companies as well as providing the controlling shareholders’ right to pursue the new business opportunities while the issuer decided to decline such new business opportunities. Therefore, we are of the view that the mechanism allowing SAC Aircraft Leasing Members to pursue any Restricted Activity if the Company decides to decline the new business opportunity under Restricted Activity is in line with market practice.

With reference to the Letter from the Board, we noted that the main internal control and risk management measures including, (i) the Board will establish a committee comprising all of the Independent Directors which will be delegated with the authority to review on an annual basis the Undertakings from the Covenantors and to evaluate the effective implementation of the Amended Deed; and (ii) each of the Covenantors undertakes to provide all information necessary for the annual review by the committee comprising the Independent Directors and the enforcement of the Amended Deed, and to provide an annual confirmation on the compliance of the Amended Deed for the inclusion in the annual report of the Company.

Based on the above, we are of the view that the Supplemental Deed is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **6. THE TERMS OF COOPERATION FRAMEWORK AGREEMENT**

Reference to the details of terms of Cooperation Framework Agreement as disclosed on the Letter from the Board, under Cooperation Framework Agreement, it is contemplated that SAC Aircraft Leasing Members may refer Private Deal Opportunity to the Group and the SAC Aircraft Leasing Members and the Company (and/or through its Subsidiaries) may cooperate in Joint Bid Opportunity in respect of Aircraft Leasing Business, provided that the following mechanisms are strictly followed.

Under the Private Deal Opportunity, upon receipt of the Private Deal Notice, the Independent Directors are given the power to determine whether or not the Company (and/or its Subsidiary) shall become the purchaser or lessor under the Private Deal Opportunity and execute the Private Deal LOI in place of or in addition to the SAC Aircraft Leasing Member. Added to that, if the Asset consists of more than one item, the Independent Directors shall have the right and priority in choosing the items it wishes to acquire or lease. Further, the Independent Directors shall have the power to determine whether the SAC Aircraft Leasing Members are allowed to pursue the Private Deal Opportunity when the Private Deal Counterparty refuses to disclose the Private Deal Information to the Company (and/or its Subsidiary) or does not accept the Company (and/or its Subsidiary) may be the relevant purchaser.

Under the Joint Bid Opportunity, the Company (and/or its Subsidiary) is given the right to decide whether or not to participate in a bidding opportunity and whether to form a Joint Bid Team with the SAC Aircraft Leasing Members. In case that the Company decides not to participate such bidding opportunity with the SAC Aircraft Leasing Members, the Company still has the right to participate the opportunity itself. Further, the Company (and/or its Subsidiary) is given the first choice to decide the number and type of aircraft which it would wish to acquire or lease out of all the aircrafts available for bidding, hence the Company is in a dominant position over the SAC Aircraft Leasing Members to decide the initial number and type of aircraft it wish to acquire. Also, in case the number of aircraft awarded under the joint bid shall fall short of the number of aircraft which the Joint Bid Team intended to bid for, the Company (and/or its Subsidiary) would have the priority to acquire or lease the number and type of aircraft which it undertakes to acquire and lease initially.

As advised by the management of the Company, we note that in assessing whether or not to pursue the Private Deal Opportunity and the Joint Bid Opportunity, the Company can (i) access full information of aircrafts including their specification and maintenance condition; (ii) conduct a more in-depth due diligence study and research in assessing the condition of aircrafts; and (iii) perform a detailed analysis to estimate the possible synergy effects with the Group's existing business. Moreover, the Independent Directors would consider other relevant factors, including feasibility studies, estimated profitability, market, commercial and counterparty risks, compliance with the business strategy of the Group, possible synergy with the Group's operation, the financial resources available to the Group and the qualifications and/or eligibility the Group has at that time, as well as the relevant legal, regulatory and contractual requirements, with a view to arrive at a decision which is in the best interest of the

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Company and the Shareholders as a whole. Upon receipt of the Private Deal Notice and the Joint Bid LOI Notice, taking into account the findings and factors above, the Independent Director has right to make decision whether or not to execute the Private Deal Lol and the Joint Bid LOI, the opportunity will not be further processed without the Independent Director's approval. Based on above mechanism, we noted that the decision whether to execute the Private Deal Opportunity and Joint Bid Opportunity shall be made by the committee comprising the Independent Director only while the other Board of Directors are required to abstain from the relevant proceedings of such Board meetings, this arrangement can ensure that the committee can perform a review on the Private Deal Opportunity and Joint Bid Opportunity independently to avoid conflict of interest when making decision. We are of the view that the above mechanism which can safeguard the interest of the Company under the Joint Bid Opportunity is effective to ensure that no undue benefits would be conferred to SAC Aircraft Leasing Member.

In addition, under the Right of First Refusal, if any SAC Aircraft Leasing Member proposes to dispose the Available-for-Sale Asset and has received an offer from any Third Party Buyer, it shall serve on the Company a notice prior to the signing of the letter of intent relating to such disposal with the Third Party Buyer in writing setting out the particulars and terms of the disposal. The Company has the right to acquire Available-for-Sale Asset at the price upon approval of the Independent Director. In case that (i) the Company decides to acquire Available-for-Sale Asset, the SAC Aircraft Leasing Member would have to turn down the Third Party Buyer and proceed the transaction with the Company; and (ii) the Company declines to acquire Available-for-Sale Asset, SAC Aircraft Leasing Member has the right to dispose the Available-for-Sale Asset to the Third Party Buyer. Moreover, as the decision on whether to purchase the opportunity or the Right of First Refusal being determined by the committee comprising the Independent Director only while the other Board of Directors are required to abstain from the relevant proceedings of such Board meetings, this arrangement can ensure that the committee can perform a review on business opportunity independently to avoid conflict of interest when making decision.

Lastly, SAC Aircraft Leasing Members has jointly and severally undertake to the Company and its Subsidiary that they shall not pursue any opportunity to acquire and lease any Asset or acquire and lease any Asset otherwise than pursuant to this Cooperation Framework Agreement. As both the Company and SAC Aircraft Leasing Members will pursue Aircraft Leasing Business, the undertaking will reduce the risk of potential competition between the Company and SAC Aircraft Leasing Members.

In view that (i) the terms under the Private Deal Opportunity allow full access to the Private Deal Information; (ii) the terms under Joint Bid Opportunity locate the Company at a dominant position in deciding the number and types of aircraft it wish to scquire or lease; (iii) the mechanism under the Private Deal Opportunity and Joint Bid Opportunity safeguard the interest of the Company that no undue benefits would be conferred to SAC Aircraft Leasing Member; (iv) the Right of First Refusal provides the Company with the right to acquire the Available-for-Sale Asset in advance of other Third Party Buyer; and (v) the Undertaking offers a high level of control of the

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Company over the SAC Aircraft Leasing Members in pursuing Aircraft Leasing Business, we are of the view that the above measures provide flexibility in pursuing new business opportunities in Aircraft Leasing Business at a later but more appropriate time after review and due diligence performed by the committee and therefore are fair and reasonable.

The other principal terms of Cooperation Framework Agreement are summarized as follow:

- (a) Conditions: The Cooperation Framework Agreement shall become effective conditional on the fulfilment of all of the following conditions:
- (a) the Company having obtained the approval of independent Shareholders in relation to the Supplemental Deed and the Cooperation Framework Agreement; and
  - (b) all requirements under the Articles and the Listing Rules having been fully complied with in relation to the Cooperation Framework Agreement and Supplemental Deed.
- (b) Term: For a term of three years commencing from 1 January 2019 provided that all the abovementioned conditions above are fulfilled by then.
- (c) Total Invested Capital: Not exceeding ¥90,000,000,000 (equivalent to approximately HK\$6,210,000,000)
- (d) Proposed Annual Caps

The proposed annual caps (the “**Proposed Annual Caps**”) for the continuing connected transactions under the Cooperation Framework Agreement for the three years commencing from 1 January 2019 and ending on 31 December 2021 are as follows:

	<i>JPY in millions</i>		
<b>Transaction Period</b>	<b>For the year ending 31 December 2020</b>	<b>For the year ending 31 December 2021</b>	<b>For the year ending 31 December 2022</b>
Proposed Annual Caps	30,000	30,000	30,000

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As advised by the management of the Company, the Company intends to purchase mainly the narrow-body aircrafts such as A320, A321, B737-800, A320 NEO, A321 NEO, and B737 MAX8 and possibly wide-body aircrafts such as B787-9 and A350-900, these are popular models in the market of the Aircraft Leasing Business, which are expected to have stronger leasing demand than other less popular models. Also, we note that the Company will consider to purchase the aircraft within about five years from their production and with the remaining lease term of about five years, hence the aircrafts are expected to be in good condition and the maintenance costs would be lower than the aircrafts with older age. We are advised by the management that the Company will purchase aircraft with remaining lease term of about five years to (i) ensure its estimated cash inflow to be collected during the term of leasing agreement; (ii) avoid spending further time in identification of lessee and negotiation of terms of leasing agreement; and (iii) accelerate the building of customer relationship with the Company during the start-up stage of the Aircraft Leasing Business.

In calculating the Proposed Annual Caps, the Company has taken into account the scale of investment which justifies the future establishment of its own full-fledged lease management team to provide services to the Group and SAIL. The Company has also considered the scale of investment aligning with the Company's strategy to diversify its investments in aircrafts in order to lower the risk.

With reference to the Letter from the Board, the price of the aircraft and the rent under a lease agreement largely depends upon the supply and demand dynamics of the market and the conditions for each individual aircraft, each transaction entered into under the Cooperation Framework Agreement shall be negotiated on an arm's length basis. The pricing policy of aircrafts are determined with the reference to (i) the expected purchase price in future of the aircraft made by an external evaluation company and the simulation of projected return considering relevant costs; (ii) the portfolio of aircrafts of the Group then including manufacturing year, lease expiration year, airline, region and type of aircraft; and (iii) the proposed annual cap to achieve a steady increase of the portfolio of the aircrafts, in order to lower the risk when facing the fluctuation of the market of the Aircraft Leasing Business. In this regard, we consider the approach of adopting the expected purchase price evaluated by an independent third party as an appropriate approach, while the simulation of projected return can provide a concrete idea for the Company whether or not the purchase is worth to proceed by taking into account the projected return and required yield. Further, as mentioned above, we understand the intention of the Company to purchase popular models aircrafts within about five years from their production and with the remaining lease term of about five years, upon discussion with the management of the Company, we are advised that after taking into account of the aircraft ages, credibility of the airlines, leasing terms, equipment and maintenance conditions, the Company expected the price of an aircraft will range from ¥4.0 billion to ¥5.0 billion.

In order to assess whether the suggested price range of aircrafts adopted in the estimation of the proposed caps is fair and reasonable, we have performed the following works. First, we have attempted to obtain from public domains for offer prices of used aircrafts which are within about five years from their production and are of

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similar model the Company intended to purchase. However, to the best of our knowledge and as far as we are aware of, we noted that the aircraft manufacturers do not provide price information on used aircrafts or provide an official platform for trading of used aircrafts of their own brands. Meanwhile, we also note that there is no centralised market place or exchange for trading of used aircrafts and it appears that trading of used aircrafts are generally private deals between different buyers and sellers. Moreover, we have identified three other aircraft leasing companies listed on the Exchange and reviewed their announcements regarding aircraft sales and purchases transactions, we note that the relevant announcement did not disclose aircraft ages and the purchase or selling price of the individual used aircraft. Therefore, we have also obtained and reviewed certain quotations provided by the management, and we noted that the selling prices contained in these quotations of used aircrafts (which are of similar model the Company intended to purchase) fell within the suggested range from ¥4.0 billion to ¥5.0 billion, hence, we concur with the Company that the suggested range is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

With the assumption of the price per such aircraft would become ¥4.5 billion (being the mid-point of the range of price of aircraft), the Company plans to purchase mainly five to seven narrow-body aircrafts for each of the initial three years, and a maximum of 20 aircrafts for the initial three years (actual quantity, price, type, condition and age of aircrafts to be purchased subject to available aircrafts in the market during the term of the Cooperation Framework Agreement). According to the management of the Company, for the estimation of total twenty aircrafts to be purchased in the initial three years and the purchasing plan of the number of aircrafts to be purchased in each of the initial three years are determined by (i) the setup, operation costs and other fixed costs of operating the Aircraft Leasing Business; (ii) the future scale of investment to achieve future establishment of the Company's own full-fledged lease management team; and (iii) the proposed annual cap to achieve a steady increase of the portfolio of the aircrafts, in order to lower the risk when facing the fluctuation of the market of the Aircraft Leasing Business, so that the Company will not only be able to operate independently on the Aircraft Leasing Business without relying on the external service provider, but also provide the relevant services to SAC. It is expected by the management that with the twenty aircrafts to be purchased for the initial three years, the Company can reduce average operating costs and therefore improve the profitability of the Aircraft Leasing Business in the forthcoming future. Upon our understanding, the aircraft leasing market has a high entry barrier as mentioned in the section headed "Reasons for and Benefits of Entering into the Supplemental Deed" in this letter, start up costs of entering into the Aircraft Leasing Business is high, in order to cover the fixed costs such as staff costs in hiring expertise and internal training, the business has to be up to a certain scale, and in this case, the number of aircrafts owned by the Company for the initial years should be enough for it to meet the demand of its target customers. We believe that the number of aircrafts purchased and amount of annual invested capital in each of the initial three years under the purchasing plan disclosed by the Company, provides a stable growth of the Company in the aircraft leasing industry and allows the Company to overcome the entry barrier of the market, with steady increase in number of aircrafts owned by the Company instead

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of investing the Total Invested Capital in the initial year, the Company can (i) penetrate into the aircraft leasing market; (ii) meet the demand of the target customers; (iii) enjoy certain level of economies of scale in business; and (iv) reduce risk in terms of the portfolio of the aircrafts and the formation of the organization.

On the other hand, the Proposed Annual Caps of ¥30,000 million for each of the initial three years, will be funded by idle cash and bank borrowings of the Company as mentioned in the section headed “Reasons for and Benefits of Entering into the Supplemental Deed” in this letter. We understand that under the purchasing plan of aircrafts, the Company will invest the Total Invested Capital evenly throughout the initial three years at a gradual pace, and with the presence of idle cash and sufficient room for the Company to increase the debt borrowing level, it is expected that the proposed Total Invested Capital being split evenly into the amount of the Proposed Annual Caps shall not exert significant cash flow pressure to the operation of the Company during the term of the Cooperation Framework Agreement, hence we believe the financial position of the Company can support the funding of the amount of the Total Invested Capital.

Based on the above, we are of the view that the Cooperation Framework Agreement is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors, we are of the opinion that (i) the Supplemental Deed and the Proposed Amendments contemplated thereunder; and (ii) the Cooperation Framework Agreement and the Proposed Annual Caps are not in the ordinary and usual course of business of the Company; and the terms of the Supplemental Deed and the Cooperation Framework Agreement are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the independent Shareholders, and we advise the independent Shareholders, to vote in favour of the special resolution to be proposed at the EGM for approving the Supplemental Deed and the Cooperation Framework Agreement.

Yours faithfully,

For and on behalf of

**Octal Capital Limited**

<b>Alan Fung</b>	<b>Louis Chan</b>
<i>Managing Director</i>	<i>Director</i>

*Note:* Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 24 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 16 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

## 1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for each of the three years ended 31 March 2016, 2017 and 2018 and the reviewed consolidated financial statements of the Group for six months ended 30 September 2018 are respectively disclosed in the following documents which have been published on the website of the Company (<http://www.dyjh.co.jp/>) and the website of the Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)):

- the annual report of the Company for the year ended 31 March 2016 published on 30 May 2016 (pages 70 to 154) <http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0530/LTN20160530249.pdf>;
- the annual report of the Company for the year ended 31 March 2017 published on 29 May 2017 (pages 82 to 159) <http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0529/LTN20170529245.pdf>;
- the annual report of the Company for the year ended 31 March 2018 published on 29 May 2018 (pages 66 to 140) <http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0529/LTN20180529279.pdf>; and
- the interim report of the Company for the six months ended 30 September 2018 published on 27 November 2018 (pages 31 to 49).

## 2. INDEBTEDNESS OF THE GROUP

### Indebtedness

At the close of business on 30 September 2018, 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 was as follows:

### Borrowings and obligations under finance leases

The Group had total outstanding indebtedness of JPY5,598 million (equivalent to approximately HK\$386 million) as at 30 September 2018. The table below sets forth the Group's total outstanding indebtedness as at 30 September 2018.

	<i>Notes</i>	<b>Total JPY (in million)</b>
Bank borrowings		
Amount due for settlement within 12 months (Current liabilities)	(1)	4,370
Amount due for settlement after 12 months (Non-current liabilities)	(1)	<u>786</u>
Sub-Total	(1)	<u>5,156</u>
Obligations under finance leases		
Amount due for settlement within 12 months (Current liabilities)	(2)	204
Amount due for settlement after 12 months (Non- current liabilities)	(2)	<u>238</u>
Sub-Total	(2)	<u>442</u>
Total		<u><u>5,598</u></u>

The Bank borrowings as at 30 September 2018 were secured by the following:

	<i>Notes</i>	<b>Total JPY (in million)</b>
Property, plant and equipment	(1)	<u>2,931</u>
Total	(1)	<u><u>2,931</u></u>

*Notes:*

- (1) As at close of business on 30 September 2018, the Group had short-term and long-term borrowings outstanding of JPY4,370 million (equivalent to approximately HK\$302 million) and JPY786 million (equivalent to approximately HK\$54 million) respectively. The bank borrowings were secured by charges over property, plant and equipment as at 30 September 2018.
- (2) As at close of business on 30 September 2018, the Group had short-term and long-term obligations under finance leases outstanding of JPY204 million (equivalent to approximately HK\$14 million) and JPY238 million (equivalent to approximately HK\$16 million) respectively. The obligations under finance leases were not secured by mortgages as at 30 September 2018.

**Contingent liabilities**

At the close of business on the Latest Practicable Date, the Group did not have any significant contingent liabilities.

Except as disclosed above and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding, or authorized or otherwise created but unissued, term loans, any other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, mortgages and charges, contingent liabilities or guarantees as at 30 September 2018.

Foreign currency amounts have been translated into Hong Kong dollars at the exchange rates prevailing on the Latest Practicable Date.

The Directors are not aware of any material changes in the indebtedness or contingent liabilities of the Group since the close of business on the Latest Practicable Date.

**3. EFFECT**

Under the transactions contemplated under the Cooperation Framework Agreement (the “**Proposed Transactions**”), the aircraft leased pursuant to the Proposed Transactions (the “**Leased Aircraft**”) will be recorded as fixed assets of the Group and the principal amount of the Proposed Transactions will be recorded as long-term liabilities of the Group.

The consideration for the purchase of aircraft may be funded through the Group's working capital, bank loans from commercial banks and other sources of financing available to the Group. The Company has no intention to conduct any fundraising activities through issuing additional equity in the next twelve (12) months.

Using the bank loans from commercial banks under the Proposed Transactions may result in an increase in the Group's debt-to-equity ratio, but considering the working capital and cash flow generating capacity of the Group, it is not expected to have a substantial impact on the Group's cashflow position or its business operations.

Therefore, the Proposed Transactions will not add immediate financial burden to the Group, and the Proposed Transactions are not expected to result in a material impact on the earnings and net assets of the Group.

#### **4. WORKING CAPITAL**

The Directors, after due and careful enquiry, are of the opinion that after taking into account the financial resources available to the Group, including the internally generated funds and the available banking facilities, the Group has sufficient working capital for its present requirements and will have sufficient working capital for at least the next twelve (12) months from the date of this circular.

#### **5. FINANCIAL AND TRADING PROSPECT OF THE GROUP**

As disclosed in the Company's annual report for financial year 2018 ("FY2018"), the pachinko hall industry continued to experience a harsh operating environment as a result of the decreasing number of customers in high playing cost halls, while the revenue generated from high playing cost halls accounting for more than half of the total revenue during FY2018. Moreover, in early 2018, the Japanese government imposed anti-addiction measures, strengthened the regulations on the playing machines by among others, reducing the maximum payouts of pachinko machine per jackpot.

In such operating environment, the Group has been making efforts to promote low cost operation by, among others, reducing the purchasing amounts of playing machines and will continue to improve the profitability of the Group. With the aims to make pachinko "daily amusement which everyone can casually enjoy", the Group operates the halls taking into accounts of the perspective of customers and performs the restructuring and other operating measures. Meanwhile, the Group has been making efforts to expand its market share by opening halls, especially, low-playing-cost halls. As such, the Group will maintain the existing business of pachinko hall operation and other businesses like before, and has no intention of downsizing or disposing of our existing business.

Meanwhile, the Group considers that while continuing the existing pachinko business, there is a need to explore new business opportunities in order to support the long-term development of the Group.

With the substantial increase of the aircraft leasing activities ever year and the abundant liquidity in the global market, the Group is of the view that the Aircraft Leasing Business is booming and will continue to grow in a steady pace in the coming twenty (20) years.

With the assistance and cooperation of the SAC Aircraft Leasing Members, the Company plans to set up operations in both Ireland and Hong Kong, in order to enjoy the facilitative measures in relation to the accounting framework and tax regime adopted by both regions in developing Aircraft Leasing Business. Ireland as the global leader in aircraft leasing industry adopts the lowest corporate tax rate. Moreover, with

the introduction of the new aircraft leasing tax regime adopted in July 2017, tax concessions to qualifying aircraft lessors and qualifying aircraft leasing managers in Hong Kong have been offered. Under such tax regime, in general, qualifying aircraft lessors are entitled to a tax concession. The profits derived by qualifying aircraft lessors and qualifying aircraft leasing managers from qualifying activities are charged at 8.25%, i.e. one-half of corporate profits tax rate of Hong Kong.

By adding the future income from the Aircraft Leasing Business to the income generated from the existing pachinko hall operating business, the Company believes that the Group's value will be enhanced.

The Company has no plan to conduct any acquisitions in the coming twelve (12) months, other than those disclosed in this circular.

## **6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2018, being the date to which the latest published audited financial statements of the Group were made up.

**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 Group. 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.

**DISCLOSURE OF INTERESTS****(a) Interest of Directors and Chief Executive in the Company**

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (the “**Model Code**”) were as follows:

***Long positions in the Shares and underlying Shares***

<b>Name</b>	<b>Nature of Interest</b>	<b>Number of Shares<sup>(1)</sup></b>	<b>Approximate Percentage of Interests in the Company<sup>(2)</sup></b>
Mr. Yoji SATO	Interest of controlled corporations <sup>(3)</sup>	273,632,560	
	Interest of spouse <sup>(3)</sup>	760	
	Other <sup>(4)</sup>	<u>177,971,800</u>	
		<u>451,605,120</u>	<u>58.96%</u>
Mr. Kohei SATO	Beneficial Owner <sup>(5)</sup>	55,139,680	
	Other <sup>(4)</sup>	<u>396,465,440</u>	
		<u>451,605,120</u>	<u>58.96%</u>
Mr. Tatsuji FUJIMOTO	Beneficial Owner	209,300	0.027%
Mr. Ichiro TAKANO	Beneficial Owner	20,000	0.003%
Mr. Noriaki USHIJIMA	Beneficial Owner	414,000	0.054%

*Notes:*

- (1) All interests stated are long positions.
- (2) There were 765,985,896 Shares in issue as at the Latest Practicable Date.
- (3) Out of the total 273,632,560 Shares, SAC, which is wholly owned and controlled by Mr. Yoji SATO, is beneficially interested in 177,822,560 Shares. Rich-O is beneficially interested in remaining 95,810,000 Shares and is owned as to 79.45% by SAC, 4.82% by Mr. Yoji SATO and 15.73% by One Asia Foundation (Hong Kong) Co., Limited which is also wholly owned by Mr. Yoji SATO. Therefore, each of SAC and Rich-O is directly or indirectly controlled by Mr. Yoji SATO and the interests in the Company held by SAC and Rich-O are deemed to be Mr. Yoji SATO's interests under the SFO. Mrs. Keiko SATO, his wife, is beneficially interested in 760 Shares, and such interests are deemed to be Mr. Yoji SATO's interests under the SFO.
- (4) Each of Mrs. Keiko SATO (wife of Mr. Yoji SATO), Mrs. Yaeko NISHIWAKI (sister of Mr. Yoji SATO) and her associate, Mr. Masahiro SATO (brother of Mr. Yoji SATO), Mr. Shigehiro SATO (brother of Mr. Yoji SATO), and Mr. Kohei SATO (brother of Mr. Yoji SATO) (collectively, the "**Sato Family Members**") is a party acting in concert with Mr. Yoji SATO, SAC and Rich-O and each other to obtain or consolidate the holding of 30% or more of the Company, and is therefore deemed to be interested in the Shares in which Mr. Yoji SATO or any other Sato Family Member is interested, and Mr. Yoji SATO is deemed to be interested in the Shares in which any Sato Family Member is interested.
- (5) Mr. Kohei SATO, one of the Sato Family Members, has been reappointed as an executive Director on 22 June 2017 to serve concurrently as chief executive of the Company. He is beneficially interested in 55,139,680 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO, or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Exchange pursuant to the Model Code.

**(b) Substantial Shareholders**

So far as is known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, companies and persons who had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

***Long positions in the Shares and underlying Shares***

<b>Name</b>	<b>Nature of Interest</b>	<b>Number of Shares<sup>(1)</sup></b>	<b>Approximate Percentage<sup>(2)</sup></b>
SAC	Beneficial owner <sup>(3)</sup>	177,822,560	
	Interest of controlled corporation <sup>(3)</sup>	<u>95,810,000</u>	
		<u>273,632,560</u>	<u>35.72%</u>
Rich-O	Beneficial owner <sup>(3)</sup>	95,810,000	12.51%
One Asia Foundation	Beneficial owner	80,000,000	10.44%
Mrs. Keiko SATO	Beneficial owner	760	
	Interest of spouse <sup>(4)</sup>	273,632,560	
	Other <sup>(5)</sup>	<u>177,971,800</u>	
		<u>451,605,120</u>	<u>58.96%</u>
Mr. Masahiro SATO	Beneficial owner	37,559,680	
	Other <sup>(5)</sup>	<u>414,045,440</u>	
		<u>451,605,120</u>	<u>58.96%</u>
Mr. Shigehiro SATO	Beneficial owner	44,375,680	
	Other <sup>(5)</sup>	<u>407,229,440</u>	
		<u>451,605,120</u>	<u>58.96%</u>
Mrs. Yaeko NISHIWAKI	Beneficial owner	22,979,576	
	Interest of controlled corporation	17,917,184	
	Other <sup>(5)</sup>	<u>410,708,360</u>	
		<u>451,605,120</u>	<u>58.96%</u>

*Notes:*

- (1) All interests stated are long positions.
- (2) There were 765,985,896 Shares in issue as at the Latest Practicable Date.
- (3) See Note (3) on page II-2 of this circular.
- (4) Mr. Yoji SATO is Mrs. Keiko SATO's husband and therefore, pursuant to the SFO, she is deemed to be interested in the Shares held by him.
- (5) See Note (4) on page II-2 of this circular.

Save as disclosed above, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or proposed Director (if any) was a director or employee of a company which had an interest in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**DIRECTORS' SERVICE CONTRACTS**

None of the Directors has entered into any unexpired service contract with the Company which shall not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

**DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS****Interests in assets**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to any member of the Group since 31 March 2018 (the date to which the latest published audited consolidated financial statements of the Company was made up).

**Interests in contracts**

On 26 September 2018, the Covenantors entered into the Supplemental Deed in favour of the Company. Mr. Yoji SATO (a non-executive Director) is a director of SAC. Mr. Kohei SATO (Director and chairman of the Board), is a member of the SATO Family Members. Mr. Yoji SATO and Mr. Kohei SATO are both Covenantors of the Supplemental Deed and are regarded as having material interests in the Supplemental

Deed and therefore they have abstained from voting on relevant resolution(s) at the meeting of the Board convened for the purpose of approving the Supplemental Deed and the Proposed Amendments contemplated thereunder.

On 26 September 2018, the Company and the SAC Aircraft Leasing Members entered into the Cooperation Framework Agreement. Mr. Yoji SATO (a non-executive Director) is a director and majority shareholder of SAC. Mr. Kohei SATO (Director and chairman of the Board), is a member of the SATO Family Members. Both of them are regarded as having material interests in the Cooperation Framework Agreement and therefore have abstained from voting on relevant resolution(s) at the meeting of the Board convened for the purpose of approving the Cooperation Framework Agreement. Save as disclosed above, none of the Directors has a material interest in the Cooperation Framework Agreement.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Group.

#### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

On 26 September 2018, the Covenantors entered into the Supplemental Deed in favour of the Company, pursuant to which, SAC (together with the SAC Aircraft Leasing Member) is allowed to carry any activity or business to be carried on by any member of SAC Aircraft Leasing Members and their respective associates (other than a member of the Group) pursuant to the Cooperation Framework Agreement. Mr. Yoji SATO (a non-executive Director) is a director and majority shareholder of SAC. Mr. Kohei SATO (Director and chairman of the Board), is a member of the SATO Family Members. Both of them are regarded as having material interests in the Cooperation Framework Agreement.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective close associates was interested in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly, with the Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling Shareholder).

#### **LITIGATION**

As at the Latest Practicable Date, save as disclosed in this circular, neither the Company nor any of its Subsidiaries is engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its Subsidiaries.

**EXPERTS' QUALIFICATIONS AND CONSENT**

The following are qualifications of the experts who have been named in this circular or have given their opinions and advice which are included in this circular:

<b>Name</b>	<b>Qualification</b>
Octal Capital Limited	a licensed corporation for carrying out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Octal Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter in the form and context in which it is included.

As at the Latest Practicable Date, Octal Capital did not have any direct or indirect interest in any assets which have been, since 31 March 2018 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, Octal Capital was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**MATERIAL CONTRACTS**

The following material contracts, not being contracts entered into in the ordinary course of business of the Group, have been entered into by members of the Group within two years immediately preceding the date of this circular and are or may be material:

1. On 26 September 2018, the Covenantors entered into the Supplemental Deed in favour of the Company.
2. On 26 September 2018, the Company and the SAC Aircraft Leasing Members entered into the Cooperation Framework Agreement, which is further amended by the Supplement Agreement on 21 November 2018.

**DOCUMENTS FOR INSPECTION**

Copies of the following documents will be available for inspection at Unit A1, 32nd Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on any weekdays, except public holidays, from the date of this circular for a period of 14 days.

- (1) the Articles;

- (2) the Company's 2016, 2017, 2018 annual reports and 2018 interim report;
- (3) this circular;
- (4) the letter from the Independent Board Committee, the text of which is set out on pages 27 to 28 of this circular;
- (5) the letter of advice issued by Octal Capital to the Independent Board Committee and the independent Shareholders dated 28 November 2018, the full text of which is set out on pages 29 to 44 of this circular;
- (6) the written consent of Octal Capital referred to in this Appendix;
- (7) the Original Deed;
- (8) the Supplemental Deed; and
- (9) the Cooperation Framework Agreement.

#### MISCELLANEOUS

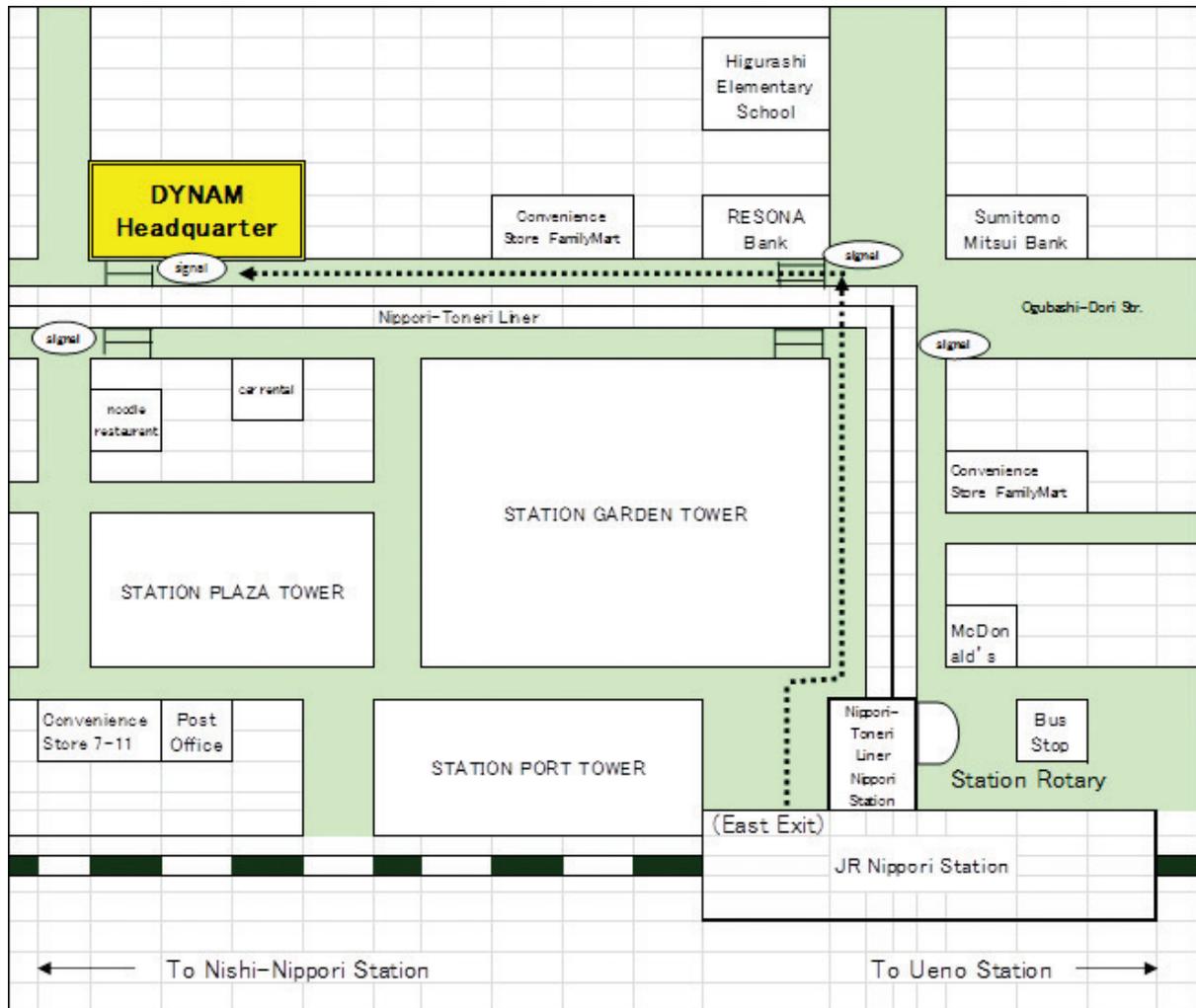
- (1) The Company engages Ms. CHU Wai Ha, director of TMF Hong Kong Limited, as one of its joint company secretaries. The other joint company secretary is Mr. Norio HARASAWA appointed by the Company on 26 June 2014. Mr. Harasawa graduated from The University of Keio in March 1989 with a bachelor's degree in law. He is a member of The Japanese Institute of Certified Public Accountants.
- (2) The registered office of the Company is at 2-25-1-702 Nishi-Nippori Arakawa-ku Tokyo, 116-0013 Japan, and the principal place of business in Hong Kong is at Unit A1, 32nd Floor, United Centre, 95 Queensway, Admiralty, Hong Kong.
- (3) The share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (4) The English text of this circular shall prevail over the Chinese text.

**THE GUIDE MAP OF EXTRAORDINARY  
GENERAL MEETING OF SHAREHOLDERS**

Location 2-27-5 Nishi-Nippori, Arakawa-ku, Tokyo, Japan  
DYNAM Headquarter

Tel. 03-5850-3660

Access JR Yamanote Line, Keihin Tohoku Line, Joban Line “Nippori Station”



## NOTICE OF EGM



### **DYNAM JAPAN HOLDINGS Co., Ltd.**

*(incorporated in Japan with limited liability)*

**(Stock Code: 06889)**

28 November 2018

*Kohei SATO, Chairman of the Board and executive Director*

**DYNAM JAPAN HOLDINGS Co., Ltd.**

2-25-1-702 Nishi-Nippori, Arakawa-ku, Tokyo, Japan

### **NOTICE OF THE EGM**

Dear Shareholders:

**NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “EGM”)** of DYNAM JAPAN HOLDINGS Co., Ltd. (the “**Company**”) will be held as detailed hereinafter, and your attendance is cordially requested.

- 1. Date and time:** Thursday, 20 December 2018 at 10:00 a.m., Japan time (Reception starts at 9:30 a.m.)
- 2. Location:** Head Office Building, DYNAM Co., Ltd.  
2-27-5 Nishi-Nippori, Arakawa-ku, Tokyo, Japan

**3. Agenda of the EGM:**

**Ordinary Resolutions**

**First Resolution**

To consider and, if thought fit, approve the Supplemental Deed to the Original Deed of Non-Competition and the Proposed Amendments contemplated thereunder

**Second Resolution**

To consider and, if thought fit, approve the Cooperation Framework Agreement and the proposed annual caps for the transactions contemplated thereunder

## NOTICE OF EGM

### 4. Rules on Convocation for the EGM

#### *(1) Shareholders attending the EGM in person*

Shareholders of the Company (the “**Shareholders**”) will be requested to confirm their identity at the reception. Confirmation of identity will be carried out by the method of comparing the Shareholder’s signature with the signature he/she has registered in advance. Please bring a piece of identification such as a passport or driver’s license.

#### *(2) Proxies representing Shareholders who are unable to attend the EGM*

Please fill out the required information on the proxy form sent by the Company, and have it signed personally by the Shareholder. The signature will be compared to the signature of the Shareholder that has been registered in advance to confirm that it is the Shareholder’s own signature, so Shareholders are requested to use the same signature that they have registered in advance.

Proxies are requested to submit the proxy form with the required information filled in and signed personally by the Shareholder to the reception desk of the Meeting on the day thereof.

Proxies will be asked to confirm their identity at the reception. Please bring a piece of identification such as a passport or driver’s license to confirm your identity as the person named on the proxy form.

#### *(3) Shareholders who are not attending the EGM and who assign their proxies to the chairman of the EGM*

Please fill out the required information on the proxy form sent by the Company (please do not fill out the spaces for the home or main office address of the proxy and name of the proxy), and have it signed personally by the Shareholder. The signature will be compared to the signature of the Shareholder that has been registered in advance to confirm that it is the Shareholder’s own signature, so Shareholders are requested to use the same signature that they have registered in advance.

Please send the proxy form, filled in with the required information excluding the home or main office address of the proxy and name of the proxy and signed personally by the Shareholder by mail to the location of the Meeting by no later than the date of the EGM OR deposit such proxy form at the Company’s share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM.

## NOTICE OF EGM

### 5. Other Precautions

- (1) All resolutions set out in this notice (the “**Notice**”) will be decided by poll at the EGM in accordance with Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
- (2) Shareholders whose names appear on the Company’s share register as at 20 November 2018 shall be deemed to be Shareholders permitted to attend and vote at the EGM.
- (3) Shareholders who intend to cast their votes in different ways (i.e. partly for and partly against a resolution) are requested to notify the Company in writing of their intention to do so and the reason therefor no later than 3 days before the EGM.
- (4) Beneficial owners of the shares of the Company (the “**Shares**”) who hold pecuniary interests and voting rights in the Company with respect to the Shares deposited into the Central Clearing and Settlement System (“**CCASS**”) and registered in the name of HKSCC Nominees Limited (“**HKSCC Nominees**”) (the “**CCASS Beneficial Owners**”) are not recognised as Shareholders under Japanese law. HKSCC Nominees will exercise the entitled voting rights of the CCASS Beneficial Owners in accordance with the pre-determined arrangements between HKSCC Nominees and the CCASS Beneficial Owners and the general operational rules of CCASS.

*An announcement and/or supplemental circular will be issued in accordance with the Listing Rules and a notice will be posted on the Company’s website on the Internet in accordance with the Companies Act of Japan and the articles of incorporation of the Company should there be any material changes to the contents and information contained in this convocation notice.*

*As of the date of this notice, the executive director of the Company is Mr. Kohei SATO, and the non-executive directors of the Company are Mr. Yoji SATO, Mr. Tatsuji FUJIMOTO, and Mr. Noriaki USHIJIMA and the independent non-executive directors of the Company are Mr. Ichiro TAKANO, Mr. Mitsutoshi KATO, Mr. Thomas Chun Kee YIP, Mr. Kei MURAYAMA and Mr. Kiyohito KANDA.*