

CODE 3468



August 7, 2019

Real Estate Investment Trust Securities Issuer  
Star Asia Investment Corporation  
Representative: Atsushi Kato, Executive Director  
(Code: 3468)

Asset Management Company  
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## Supplementary Explanatory Material Regarding Today's Timely Disclosure

### Proposal for Merger between Sakura Sogo REIT Investment Corporation and Star Asia Investment Corporation Merger Ratio ~ Star Asia Group's Unitholder-Friendly Concept

<Timely Disclosure to Be Announced Today>

「Supplementary Explanatory Material Regarding Today's Timely Disclosure Proposal for Merger between Sakura Sogo REIT Investment Corporation and Star Asia Investment Corporation Merger Ratio ~ Star Asia Group's Unitholder-Friendly Concept」

This document was drafted by Lion Partners GK and presented to the unitholders of Sakura Sogo REIT Investment Corporation.

This is an English translation of the announcement in Japanese dated August 7, 2019. However, no assurance or warranties are given for the completeness or accuracy of this English translation.

# Unitholders of Sakura Sogo REIT Investment Corporation

## Proposal for Merger between Sakura Sogo REIT Investment Corporation and Star Asia Investment Corporation Merger Ratio ~ Star Asia Group's Unitholder-Friendly Concept

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August 7, 2019

# Message from Star Asia Group/Lion Partners GK to All Unitholders of Sakura Sogo REIT Investment Corporation



- Star Asia Group currently holds 16,896 units of Sakura Sogo REIT Investment Corporation (about 5.1%, trade basis) and 97,000 units of Star Asia Investment Corporation (about 17.9%), and is expected to be the largest unitholder of the merged REIT
- We are confident that the merger of SSR and SAR will be in the best interest of and maximize value for the investors in both REITs. Star Asia Group will also continue to be incredibly committed to the growth of the merged REIT
- This document contains our approach to the merger ratio between Sakura Sogo REIT Investment Corporation and Star Asia Investment Corporation
- We kindly ask all the unitholders to support Lion Partners GK's (LPGK) proposals at both general meetings of unitholders scheduled for August 30th

# Merger Ratio ~ Star Asia's Proposal is Much More Attractive (1)

**Merger ratio  
1: 0.88~**

- We consider this merger ratio as highly rational, considering SSR's enterprise value
- Adjusted unit price of SSR based on the merger ratio to the left is **¥101,728~** (Note1)

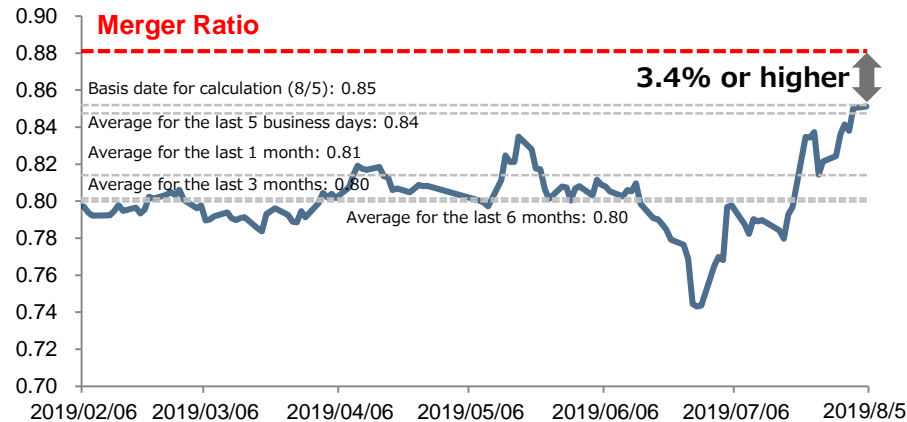
**SAR's post-merger  
(normalized) DPU  
¥2,539 ~** (Note 5)

- We calculated normalized DPU, which we will deliver to SSR's unitholders, based on the merger ratio on the assumption that short-term measures such as cost reduction will be implemented
- We will further increase the DPU in the medium to long term by implementing our strategies such as active management by Star Asia Investment Management

## Concept for the Merger Ratio

- When the merger ratio which is calculated by the investment unit weighting method based on unit price by August 7, 2019 is compared to 1:0.88, the unit price will be 3.4% or higher than closing price on August 7, 2019
- We will determine the ultimate merger ratio based on historical unit price performance and a merger ratio calculated by a financial advisor and other third parties
- Each director of SAR has confirmed the content of the assumed merger ratio and agreed to provide such information to investors

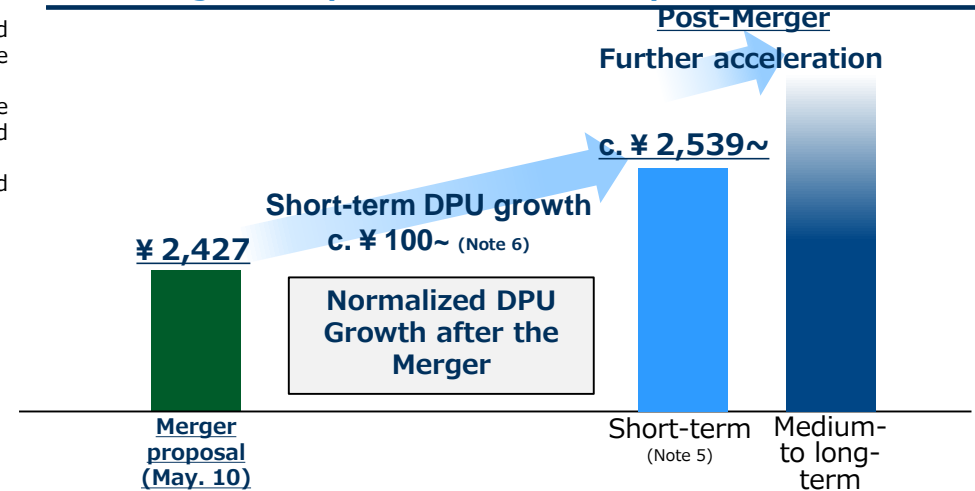
### Unit price performance for the last six months vs. the merger ratio of 1:0.88 (SSR)



### SSR's net assets appraised by Lion Partners at fair value

- **SSR's portfolio assets appraised by Star Asia Group**  
**¥63.0bn** (Note2)  
=> **+ ¥2.1bn (+3.4%)** vs. SSR's latest appraisal value
- **SSR's net assets per unit calculated based on the above appraisal value**  
**¥104,000/unit** (Note 3)  
=> **+ ¥6,500/unit** vs. **SSR's assumed NAV** (Note 4) per unit

## Post-Merger DPU (for SSR's unitholders)



## Measures for DPU growth

### ■ Short Term Measures (Note 7)

Reduction of asset management fees	=>	c. ¥40mn/FP
Reduction of leasing costs	=>	c. ¥40mn/FP
Reduction of other operation costs (Note 8)	=>	c. ¥20mn/FP
<b>Total reduction of short-term costs</b>	<b>=&gt;</b>	<b>c. ¥100mn/FP</b>

### ■ Mid to Long Term Measures for DPU growth

Cost reduction (loan-related costs, etc.)	Continued active management	Maximize growth with robust property pipeline
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- ✓ As of today, SSR holds preferential negotiation rights for 10 properties  
(More detailed information on Page 6)

# Merger Ratio ~ Star Asia's Proposal is Much More Attractive (2)

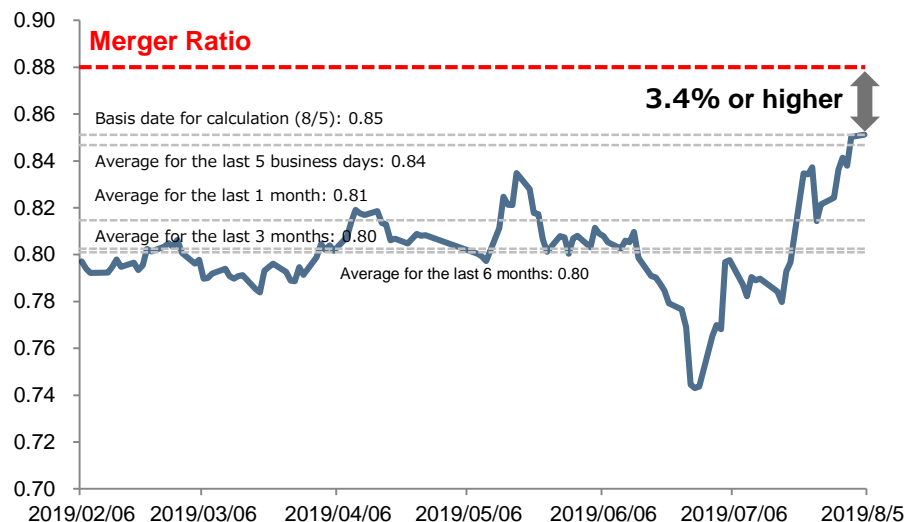
**Merger Ratio Calculated by SAR**

**1 : 0.88**

Adjusted unit price of SSR based on the merger ratio :

**¥101,728~/unit**

Unit price performance for the last six months vs. the merger ratio of 1:0.88 (SSR)



The merger ratio which is calculated by the market average price method

The adoption period of unit price	Merger Ratio (SSR/SAR)	The premium to the proposal ratio
Basis date for calculation	0.85	+3.4%
Average for the last five business days	0.84	+4.3%
Average for the last business month	0.81	+8.1%
Average for the last three months	0.80	+9.7%
Average for the last six months	0.80	+9.8%

SSR : Sakura Sogo REIT Investment Corporation      SAR : Star Asia Investment Corporation

**(Appendix) Merger Ratio Proposed by MIRAI Corporation**

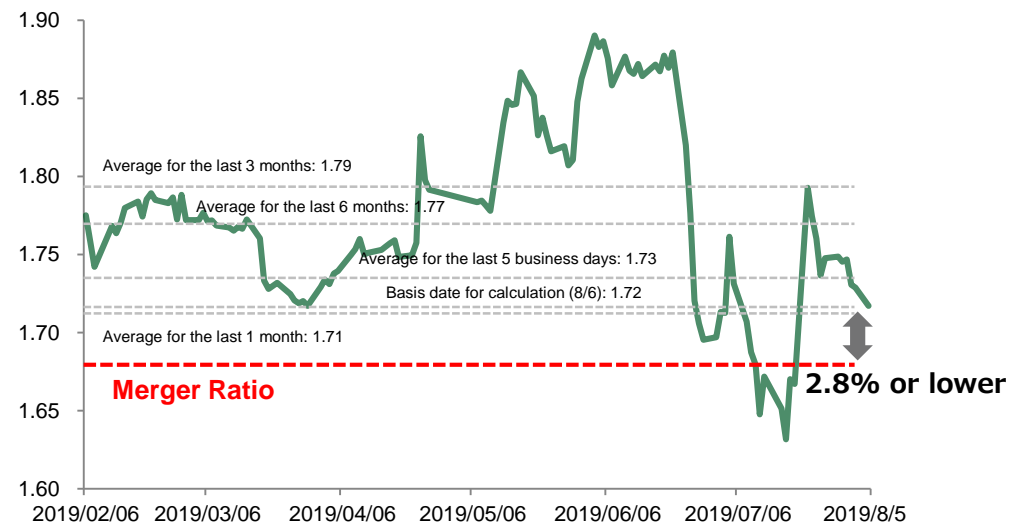
**1 : 1.67**

Adjusted unit price of SSR based on the merger ratio:

**¥94,856~/unit(\*)**

(\*)Based on the Disclosure document of SSR & MRI(2019/8/5)

Unit price performance for the last six months(MRI) vs. the merger ratio of 1:1.67 (SSR)



The merger ratio which is calculated by the market average price method

The adoption period of unit price	Merger Ratio (SSR/MRI)	The premium(discount) to the MRI's proposal ratio
Basis date for calculation	1.72	▲2.8%
Average for the last five business days	1.73	▲3.7%
Average for the last business month	1.71	▲2.5%
Average for the last three months	1.79	▲6.5%
Average for the last six months	1.77	▲5.9%

SSR : Sakura Sogo REIT Investment Corporation      MRI : MIRAI Corporation

# Merger Ratio ~ Star Asia's Proposal is Much More Attractive (3)

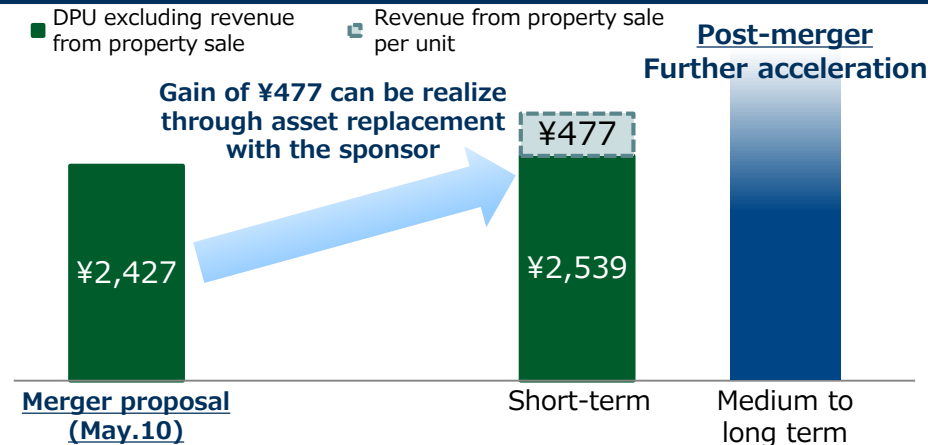
Post-merger DPU based on the assumed merger ratio calculated by Star Asia Group (Normalized DPU/for SSR's investors)

**¥2,539~** (Note 5)

Post-merger DPU based on the assumed merger ratio proposed by MIRAI Corporation (Normalized DPU/for SSR's investors)

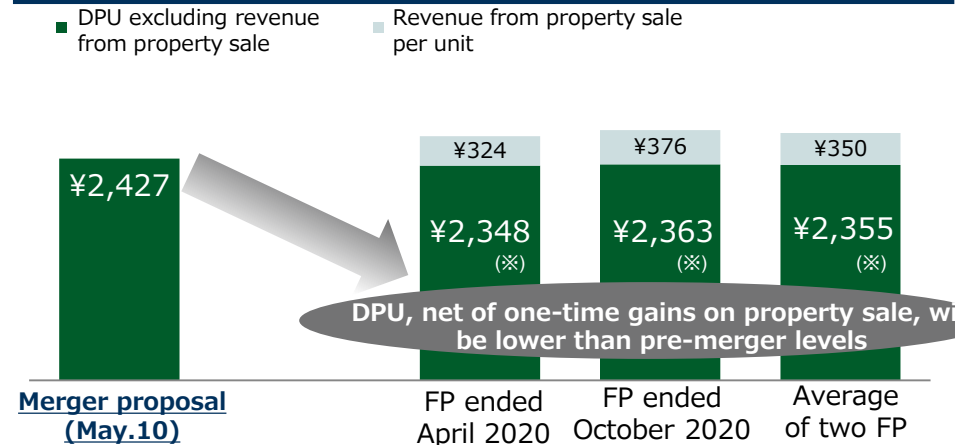
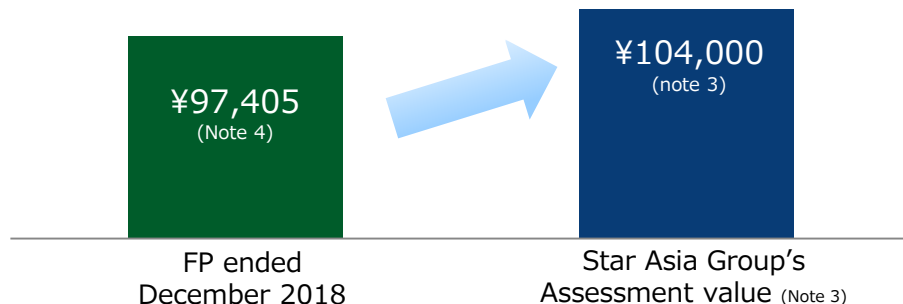
**¥2,355** (※)

## Star Asia Proposal-Post-merger DPU (for SSR's investors) Mirair Proposal-Post-merger DPU (for SSR's investors)



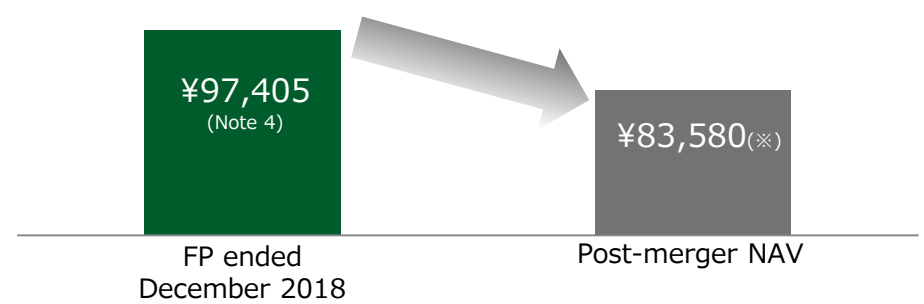
- Star Asia Group intends to support SAR's asset replacement strategy. It also continually evaluates the value of all assets held by the group. A gain of approximately ¥920 million can be realized if "Alphabet Seven" is replaced with different properties.
- We estimate an additional increase of approximately ¥477 in DPU, if the asset is disposed after the merger and the profit from the sale is recognized over 2 fiscal periods.
- In the case of asset replacement, we will conduct a broad search for potential buyers and seek the highest disposition price possible

### SSR's NAV per unit estimated by Star Asia Group



- DPU, net of gains on property sale, **will be lower than pre-merger levels.**
- ※ Post-merger DPU is calculated by multiplying the merger ratio, by the number obtained by deducting the profit on property sale per unit from post-merger DPU for each fiscal period disclosed by SSR and MRI.
- "Average of two FP" is the average of FP ended April 2020 and October 2020.

### SSR's NAV per unit calculated based on MIRAI's press release



(※) Calculated by multiplying the merger ratio by the post-merger NAV disclosed by SSR and MRI

# Post-Merger Growth Strategy:

## Post-Merger Portfolio Management Strategy

SAR will maintain its investment policy after the merger and continue to strive to maximize unitholder value

### Investment Policy (Post-merger)

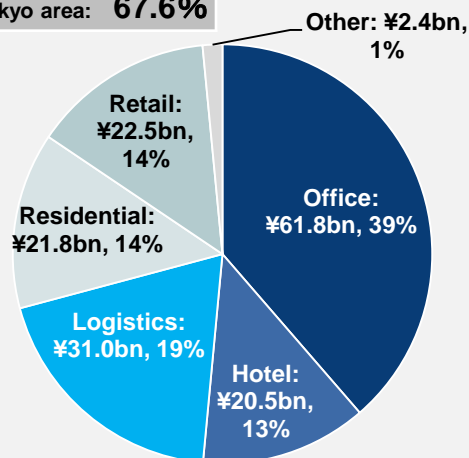
- A portfolio predominantly in Tokyo metro area
- Focus on mid-sized assets
- Stability and growth through diversification of asset types
- Commitment of the Star Asia Group  
(Star Asia Group's estimated ownership in post-merger entity: c. 13.4%)(Note 9)

### Post-merger portfolio

#### Post-merger portfolio

Total assets of **¥159.9bn** (based on acquisition price)

Assets in the Tokyo area: **67.6%**



### SAR's Views on Each Asset Type

#### Office

Middle-sized office buildings are less susceptible to oversupply of office buildings expected in the future, and SAR forecasts that supply and demand will continue to remain tight

#### Retail

There are increasing concerns over deteriorating business environment for primarily suburban brick-and-mortar stores selling non-essential goods on the back of the rise of e-commerce and the shift in consumer values towards services and experiences over material goods

#### Residential

This is the most stable asset type, and has growth potential as rents have been increasing in the current environment

#### Logistics

SAR predicts stable revenue from logistics facilities with high tenant demand in the Tokyo metro area bordering strong population centers

#### Hotel

While both business and tourism demand can be captured in urban centers, the primary demand for hotels in regional cities is tourism, so there is a risk of fluctuation in revenue due to changes in the tourism environment, and supply of new hotels

### Specific Management Policy

#### Office

Focuses on **middle-sized office buildings in urban areas** with high population density predominantly in the Tokyo metro area, and seeks growth through aggressively increasing rent

#### Retail

**Not an investment target for the time being.** Intends to replace suburban and regional retail facilities in the future, and focuses on urban retail facilities after conducting analyses of trade areas to assess their growth potential, etc. based on factors such as population in the trade area and demographics

#### Residential

**Invests in competitive properties** in light of strong demographic fundamentals based on the mid- to long-term macroeconomic environment. **Increasing rent levels**

#### Logistics

Continue to focus on logistics facilities in the **Tokyo metro area (in particular, within 30km of Tokyo Station)** which are easy to find new tenants

#### Hotel

Invests solely in urban hotels geared towards business travelers, and prioritizes the stability of the portfolio, **keeping the ratio of variable lease contracts at 10% or lower** (Note 10) in principle

# Post-Merger Growth Strategy

**Post-merger Portfolio Value on an Acquisition Price Basis: ¥159.9bn (estimate)**



**SAR's Abundant Pipeline of Properties (Total c.¥62.5bn)**



**A variety of action plans can be employed**  
**As the main scenario, SAR aims to achieve AUM of ¥200bn in the very short term**

## Properties with Preferential Negotiation Rights and Star Asia Group's Pipeline

➤ Properties in (1) are stable and have set minimum selling prices and yields exceeding SAR's current portfolio. Properties in (2) are still in development or lease-up and will be considered for acquisition once the revenue stabilizes

### (1) SAR has Preferential Negotiation Rights Total Appraisal: ¥13.6bn (Note 11)

<p>Tachikawa OHA bldg. Greater Tokyo area Office</p>	<p>Nishi-Ikebukuro 1-Chome bldg. Tokyo area Retail</p>	<p>Urban Park Mitsuike Koen Tokyo area Residential</p>	<p>Urban Park Tokiwadai Koen Tokyo area Residential</p>	<p>Chrysanthemum-ichigao Tokyo area Residential</p>
<p><b>Avg. appraised cap rate: 4.9% (Note 12) Avg. cap rate after depreciation: 4.3% (Note 13)</b></p>				

### (2) SAR has Preferential Negotiation rights Total Appraised Value: ¥17.6 bn (Note 14)

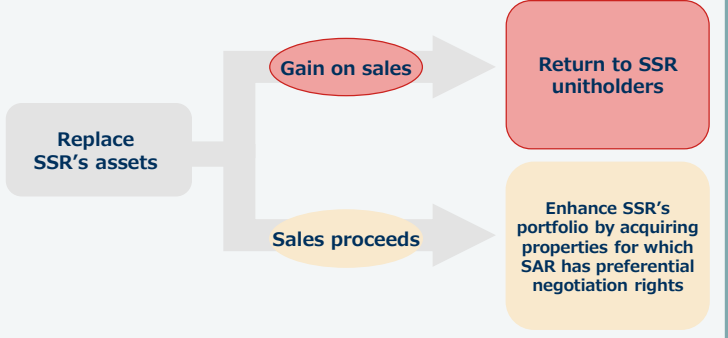
<p>HAKUSAN HOUSE Under development by GSA Star Asia</p>	<p>Shimotakaido Project Under development by GSA Star Asia</p>	<p>Nishi-Sugamo Project Under development by Star Asia Sogo Kaihatsu</p>	<p>Hakata Office Project Under development by Star Asia Sogo Kaihatsu</p>	<p>URBAN CENTER Midosuji Owned by the Sponsor's fund</p>
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### Other Properties Managed by the Sponsor Group Total Appraised Value: ¥31.3 bn (Note 15)

Example of the properties managed by Star Asia Group  
Higashiougijima Center (Logistics)

## Future action plans

- After the merger, SAR will leverage its preferential negotiation rights and the sponsor's abundant pipeline to steadily grow its asset base and seek to improve the profitability and stability of its portfolio, aiming to achieve AUM of ¥200bn in the very short term
- It will actively consider replacing assets where management foresees a decrease in future competitiveness
- When replacing assets, SAR will seek to secure gains on sales of properties to pursue the maximization of unitholder value through special dividends
  - Depending on the circumstances, properties can be sold to Star Asia Group for flexible asset replacement
  - Star Asia Group evaluates SAR's portfolio as having c. 11.0%(Note 17) in unrealized gains compared to the book value as of the end of fiscal period ended January 2019
- If Star Asia Asset Management becomes SSR's asset manager, there is an option before the merger to replace SSR's assets with the properties in (1) to the left





# Commitment of the post-merger growth by Star Asia Group

- As a leading real estate investment firm, Star Asia Group, whose Code of Conduct begins with “Clients/Investors First,” has provided investors with investment opportunities that have exceeded their expectations
- As we have continuously met and exceeded the expectations of investors for several years, we continue to manage our funds with a high degree of investment freedom. We have used these funds to uncover and execute on a wide range of investment opportunities, including equity and debt backed by real estate, and have generated a successful track record of high returns to investors
- After the merger between Sakura Sogo REIT and Star Asia Investment Corporation, Star Asia Group will continue to be duly committed to mobilizing its group resources to support and grow Star Asia’s only REIT
- Star Asia Group’s post-merger “same boat” investment in the REIT will be about 13.4% (Note 9); We believe that this significant ownership demonstrates our perfect alignment with unitholders and incentivizes Star Asia to always maximize value for unitholders

**Malcolm F. MacLean IV**  
Managing Partner



**Taro Masuyama**  
Managing Partner

Star Asia Group, LLC

## Overview of Star Asia Group

- Main Offices: Tokyo, New Jersey (US)
- Number of officers and employees: 393 people (\*)
- Star Asia Management Limited is registered as an investment advisor with the US Securities and Exchange Commission

\*As of March 31, 2019. Including officers and employees of the below entities

### Support from Star Asia Group

- Fund management
- Asset management
- Acquisition sourcing
- Special situation investing
- Warehousing function
- Same boat investment function, etc.

### Development

- ◆ Star Asia Sogo Kaihatsu Co., Ltd.
- Property development

### Operation

- ◆ GSA Star Asia
- Developing and operating student accommodation properties
- ◆ KACHIKAIHATSU CO.LTD.
- Hotel development

Unwavering Support from the Star Asia Group, which continues to expand its business lines

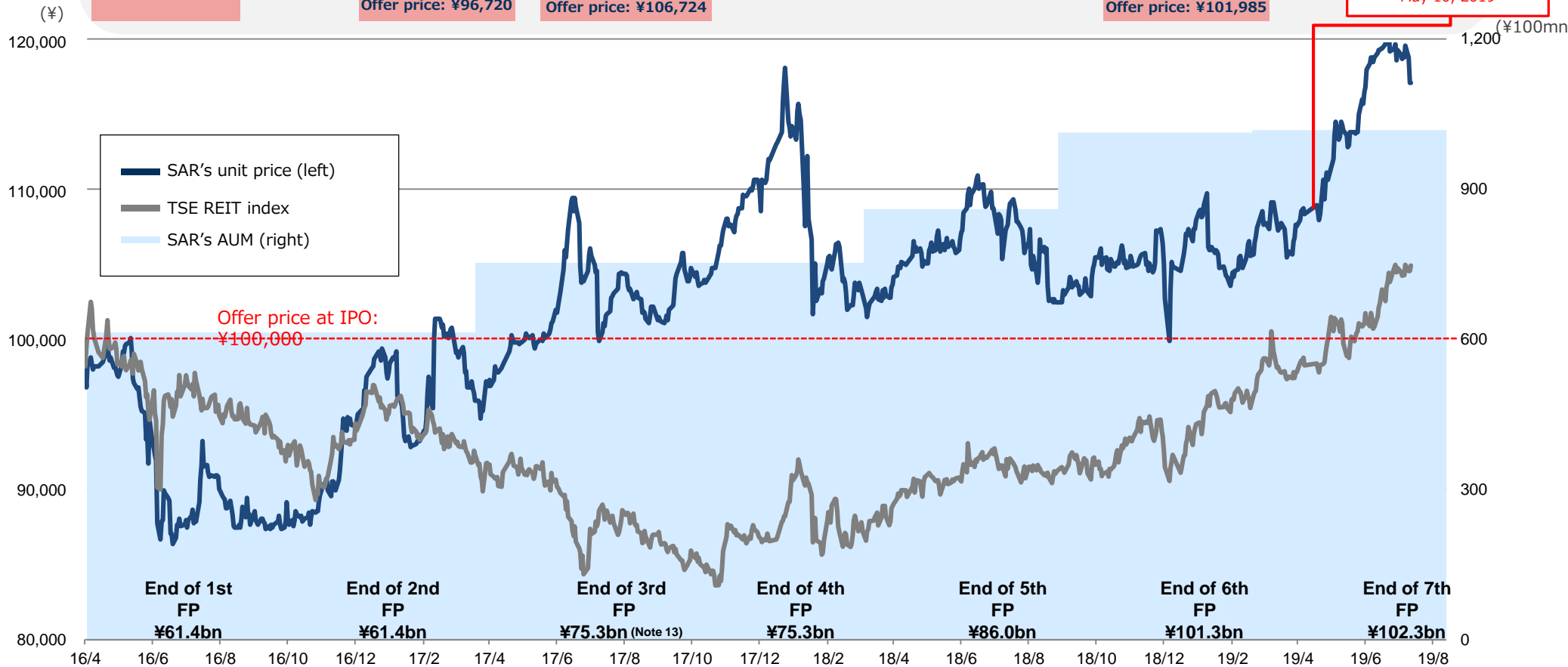
Contribution to external and internal growth of Star Asia Real Estate Investment Corporation

Post Merger Growth

# Implementation of Active Management by SAR

- Actual Results, Change in Investment Unit Price, and Growth of Assets from the Time of Listing

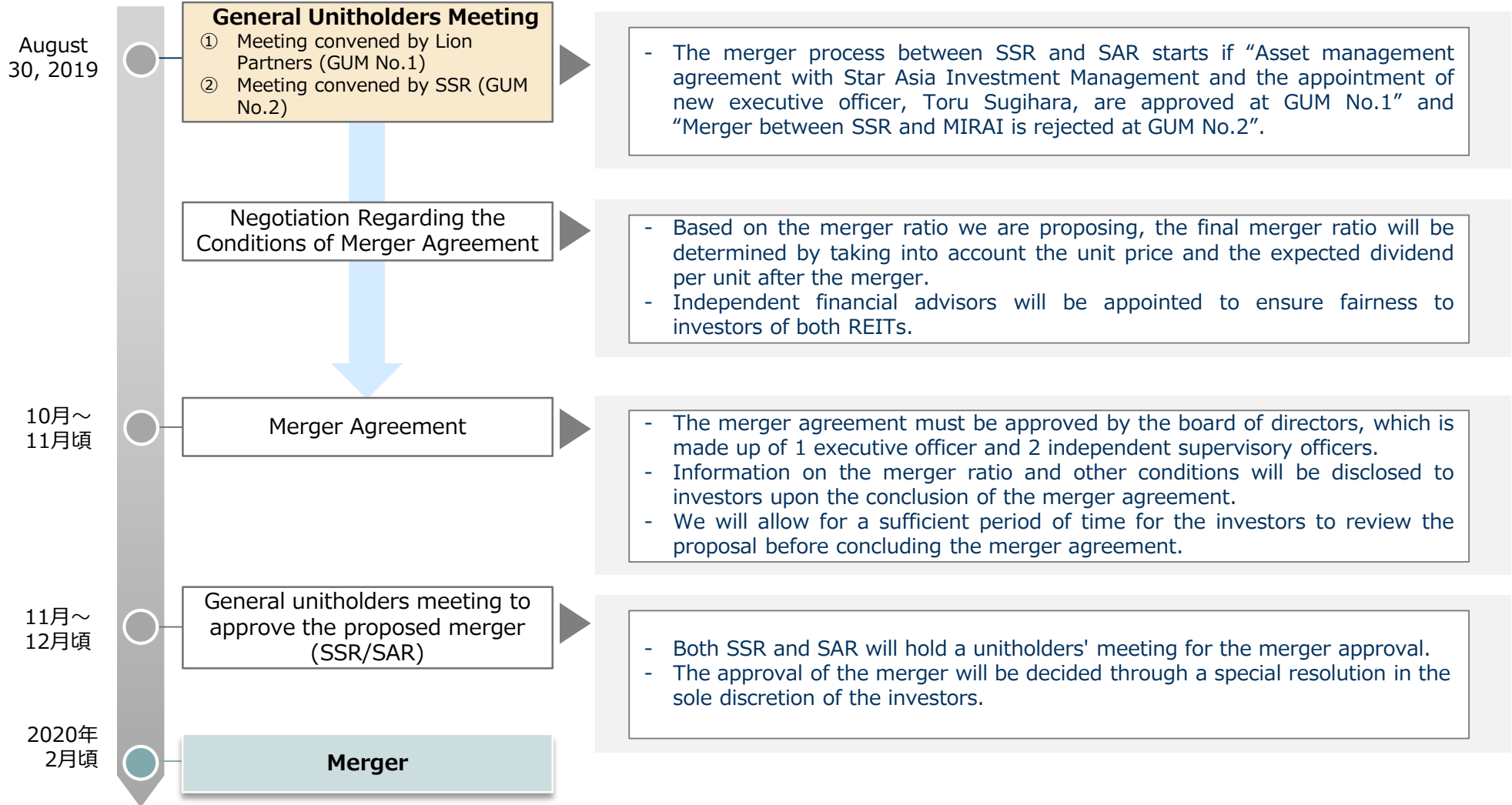
## Implementation of Continuous Active Management



# Process of the Merger of SSR and SAR

Below is the schedule for the result when the merger between SSR and MIRAI Corporation is rejected following the passage of the replacement of the executive officer (to Mr. Toru Sugihara) and the asset management company (to Star Asia Investment Management) at the investors' meeting to be held on August 30.

## Expected shortest schedule



Note1: Calculation is based on the closing price of investment units of Star Asia Investment Corporation (SAR) as of August 5, 2019.

Note2: The appraisal value of the assets in the current portfolio of Sakura Sogo REIT (SSR) is calculated by Star Asia Group, using the simplified appraisal value provided by a major real estate appraiser.

Note3: Net asset value (NAV) per unit calculated under certain assumptions on the basis of the valuation by Star Asia Group.

Note4: NAV per unit from "Execution of Merger Agreement by and between MIRAI Corporation and Sakura Sogo REIT Investment Corporation - Supplementary Material for the Press Release Dated August 5, 2019" released by SSR

Note5: Post-merger normalized DPU is calculated to be 2,886 yen, based on the estimated profit and loss statement considering the synergies. SSR's DPU is calculated based on the DPU of the merged REIT and the merger ratio.

Note6: Calculated by subtracting the SSR's projected FP8 DPU of 2,427 Yen (published on February 14, 2019) from the cruising DPU (the amount equivalent to SSR's DPU prior to the merger) of the merged REIT.

Note7: Calculated by Star Asia Group based on the comparison of past results of SSR and SAR.

Note8: Calculated on the assumption that the costs, such as executive compensation and general administrative, will be reduced by the merger.

Note9: Number as of August 5, 2019. Calculated as follow: 97,000 SAR units held by Star Asia Group, plus 16,113 SSR units held by LPGK, multiplied by the merger ratio, divided by the expected total number of outstanding investment units of the REIT after the merger.

Note10: Percentage of variable rent to total income from the hotel portfolio of the merged REIT.

Note11: Amount determined by adding the price of the properties for which the preferred negotiation price or the desired purchase price are stated in the preferential negotiation contracts, and the acquisition price that Star Asia Group is to pay for the properties for which the price is not stated in the contracts.

Note12: The yield determined by dividing the sum of NOI estimates, which are calculated by Star Asia Group based on the information of the properties as of June 2019, by the total amount of preferred negotiation price of each properties.

Note13: The rate of return on each property with priority negotiation rights (1) calculated by subtracting the sum of depreciation costs assumed by Star Asia Group from the above estimated NOI by "Total amount of preferred negotiation price"

Note14: The sum of the appraisal value of the properties. For properties not yet appraised by real estate appraiser, the acquisition price of Star Asia Group is applied.

Note15: Sum of the most recent appraisal values of properties managed by Star Asia Group (excluding properties for which SAR holds preferential negotiation rights).

Note16: Used appraisal value for 1 property not owned at the end of January 2019.

Note17: Calculated by subtracting the portfolio book value at the end of January 2019 from the total estimated acquisition value calculated by Star Asia Group, divided by the book value at the end of January 2019.

Note18: Properties that were scheduled to be transferred at the beginning of the following fiscal year are excluded from the calculation (acquisition price basis).

## <Inquiries regarding this material>

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■ Video concerning this material:

<https://www.youtube.com/channel/UCYasJn4xrns2fhyZFKMAELw>

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