You should read the following discussion and analysis of our financial condition and results of operations together with the financial information as at and for each of the three years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014 and the accompanying notes included in the accountant's report set out in Appendix I to this Prospectus. The financial information in the accountant's report has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. Potential investors should read the accountant's report and not merely rely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements. For additional information regarding these risks and uncertainties, see "Risk Factors".

OVERVIEW

We operate pachinko halls in Japan where customers can play pachinko and pachislot, which are recreational arcade games characterised by an element of chance. We were the fourth largest pachinko hall operator in Japan in 2013 (based on gross pay-ins), according to EBI. Our headquarters are located in Fukushima Prefecture (福島県). Ever since we opened our first pachinko hall in 1950, all our operations have been focused in Northeast Honshu (本州島東北), Japan, covering ten prefectures that have a total population of approximately 47.4 million (representing 37.7% of the total population in Japan) as at 31 December 2013, and accounted for 38.6% of real GDP in Japan for the year ended 31 December 2013, according to EBI. Our halls can be categorised into suburban halls and urban halls. Suburban halls are our primary focus and are typically located in suburban areas and require car access, while our urban halls are typically located in urban areas and within walking distance of a train station. As at the Latest Practicable Date, we operated 55 halls, consisting of 46 suburban halls and 9 urban halls.

The number of our pachinko halls grew during the Track Record Period. The table below shows the number of our halls as at the indicated dates:

	As at 31 March						As at 30 September				As at the Latest Practicable Date	
	2012		2013		2014		2013		2014			
	(number of halls, except for percentages)											
		%		%		%		%		%		%
Suburban	42	84.0	43	82.7	44	83.0	44	83.0	44	83.0	46	83.6
Urban	8	16.0	9	17.3	9	17.0	9	17.0	9	17.0	9	16.4
Total	**50**	**100.0**	**52**	**100.0**	**53**	**100.0**	**53**	**100.0**	**53**	**100.0**	**55**	**100.0**

For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, we generated total revenue of ¥30,352 million, ¥32,751 million, ¥33,847 million and ¥15,572 million and our profit attributable to shareholders of our Company amounted to ¥3,329 million, ¥3,765 million, ¥3,698 million and ¥937 million, respectively.

FINANCIAL AND OPERATIONAL METRICS OF OUR BUSINESS

The following are the financial and operational metrics that are key to understanding our results of operations:

Financial metrics

Gross pay-ins — amount received from customers for rental pachinko balls and pachislot tokens

It is primarily affected by the level of customer spending in our halls which is in turn largely affected by: (1) G-prize markups; (2) payout ratios; (3) number, types and mixes of machines; (4) number and types of halls; (5) number and playing time of customers; (6) competitors' behaviour and the general trend of the pachinko industry; and (7) macroeconomic factors (such as tax and inflation).

Gross payouts — aggregate cost of G-prizes and general prizes exchanged by customers[1]

It is to a large extent affected by G-prize mark-ups and payout ratios of our machines.

Revenue from pachinko and pachislot business — gross pay-ins less gross payouts

In substance, such revenue can be considered as comprising two components: (1) the revenue derived from balls or tokens lost to the machines during game play by customers; for example: assuming the payout ratio is 90%, when the customer has finished putting 100 ¥1 balls into play, theoretically, he should win back 90 balls and lose 10 balls to the operator, who would have recorded a revenue of ¥10 from such customer; and (2) the revenue derived from the mark-up imposed on prizes redeemed by customers; for example, if a 10% mark-up is imposed on G-prize redemption, a player needs to use 1,100 ¥1 balls to exchange a G-prize with a cost of ¥1,000 at which the operator purchases such G-prize from the G-prize wholesaler. In this case, the operator makes ¥100 revenue through prize redemption.

Revenue from pachinko and pachislot hall operations — revenue from pachinko and pachislot business, together with the revenue from vending machines

Revenue margin — gross pay-ins less gross payouts, divided by gross pay-ins, representing the portion of gross pay-ins that we receive as revenue, namely through customers playing our machines and our mark-ups on prize redemption

Note:

1 The amount of gross payouts in the consolidated financial information is subtracted from the opening balance of unutilised balls and tokens brought forward and added with the closing balance of unutilised balls and tokens at the period end.

Operational metrics

G-prize mark-up difference between the value of the number of balls or tokens required to collect a G-prize and the cost of the G-prize

G-prizes constitute virtually all (around 99% during the Track Record Period) of the value of all prizes exchanged by our customers. As such, G-prize mark-ups is one of the more significant factors that affect the profitability of our business. A higher G-prize mark-up means a higher revenue margin because we are charging more on prize redemption from our customers. However, the ultimate effect on revenue depends on customer sensitivity towards prize mark-ups, competitors' behavior and macroeconomic factors (such as tax and inflation), as imposing a prize mark-up may drive customers to play at competitors' halls (with lower or even no mark-up) or even to not play pachinko or pachislot at all, which will mean decreased gross pay-ins and revenue.

Payout ratio (of each machine) total number of balls or tokens won divided by the total number of balls or tokens played, representing the average probability of winning balls or tokens when playing our machines

Payout ratios must fall within the legally permissible range at all times. See "Applicable Laws and Regulations — D. Other Regulations on Pachinko Businesses — 2. Pachinko and Pachislot Machine Regulations". Our machines generally have payout ratios that are less than 1.00, meaning players, on average, win less balls or tokens than that they put into play. A higher payout ratios means a lower revenue margin because customers are on probability winning more from us. However, the ultimate effect on revenue is uncertain. On the one hand, customers are winning more, which should mean an increase in gross payouts and a decrease in revenue. On the other hand, customers are more willing to play at our halls and for a longer time per visit, which could result in an increase in gross pay-ins and revenue. Therefore, the net effect on revenue is dependent on the respective magnitude of changes on gross pay-ins and gross payouts as a result of the change in payout ratio.

Jackpot probability (of each machine) probability of triggering the jackpot mode, during which a relatively large number of balls and tokens may be won

A lower jackpot probability machine will pay out more balls or tokens for each jackpot than a higher jackpot probability machine. Customers can choose to play the type of machine according to their own preference. Therefore, an operator needs to adjust the machine mix accordingly to suit customer preferences in order to capture more gross pay-ins from the playing population.

Machine utilisation (of each machine)	the average number of balls or tokens played per day, divided by the maximum number of balls or tokens allowed to be played under the machine settings per day. This can provide information to the management as to the popularity of machines. A higher machine utilisation should generally bring about an increase in gross pay-ins and revenue. *The maximum number of balls or tokens allowed to be played under the machine settings per day is defined as the maximum number of balls or tokens allowed to be played under the machine settings per hour (i.e. 6,000 balls or 2,634 tokens) multiplied by the number of operating hours per day (i.e. 13.5 hours).*

The table below shows the key financial and operational metrics of our business during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2012	**2013**	**2014**	**2013**	**2014**
Revenue (¥, in millions)	30,352	32,751	33,847	16,429	15,572
Gross pay-ins (¥, in millions)	224,968	242,217	236,449	120,674	90,989
Gross payouts (¥, in millions)	195,340	210,298	203,455	104,682	75,798
Revenue margin (%)	13.2	13.2	14.0	13.3	16.7
G-Prize mark-up (%)	—	—	—	—	4-20%
Machine utilisation (%)					
Overall for pachinko	37.3	34.9	32.2	34.5	27.5
Overall for pachislot	31.0	29.3	28.4	29.2	22.8

Our Business Objective

We always strive to maximise our revenue. A lower payout ratio and a higher prize mark-up will raise our revenue margin. However, as mentioned above, the potential impact on gross pay-ins through movements in payout ratios and G prize mark-ups is always contingent upon a range of factors, such as competitor behaviour and customer sensitivity. Therefore, through our management's knowledge of, experience in, and judgment over (i) the above metrics and their inter-relationship, (ii) competitors' behaviour and (iii) players' sensitivity to changes in gaming experience as a result of movements in such metrics, we aim to strike an optimal balance between gross pay-ins and revenue margin in order to maximise our revenue.

Basis of Presentation

Immediately prior to and after the Reorganisation, the business of our Group was held by the Controlling Shareholders. Our business was mainly conducted through Niraku Corporation, Nexia and Merrist which are the operating entities of our Group. Pursuant to the Reorganisation, our business was transferred to and held by our Company. Our Company was not been involved in any other business prior to the Reorganisation and did not meet the definition of a business. The transaction undertaken for the Reorganisation represents reorganisation of our business with no change in management of such business and the ultimate owners of our business remain the same. Accordingly, the consolidated financial information of the companies now comprising our Group is prepared in accordance with IFRS 10 "Consolidated Financial Statements" issued by the International Accounting Standard Board, using the carrying values of our business under the Controlling Shareholders for all periods presented.

For companies acquired during each of the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, they are included in the Financial Information of the Group from the date of the acquisition.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies now comprising our Group are eliminated on consolidation.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

Market consolidation

As set out in "Industry Overview", according to EBI, gross pay-ins of the pachinko industry has been decreasing since the early 2000's, due in part to the introduction of legislation reducing jackpot sizes and in part to the competition from other forms of entertainment options available to our target customers. From 2009 to 2013, the industry gross pay-ins decreased at a compound rate of 2.8%. See "— Competition from other forms of entertainment" in this section below. As a result, the pachinko industry is expected to experience a further decline from 2014 to 2018 with total gross pay-ins gradually declining from approximately ¥17.3 trillion in 2014 to approximately ¥16.1 trillion in 2018. Nevertheless, the shrinkage of the pachinko industry presents an opportunity to larger hall operators (such as ourselves) to take up more market share in the industry. Small hall operators have been and are likely to continue to be squeezed out of the industry. Large pachinko operators have greater financial and other resources and those who enjoy economies of scales, including operational cost efficiencies and priorities in procuring new machines from machine manufacturers, are more likely to benefit from absorbing the freed up market share. The opportunities for us from such consolidation is compounded by the high fragmentation of the industry and the fact that there are very few hall operators that are as large as us. Approximately 95.8% pachinko operators are small hall operators with less than 10 halls as at 31 December 2013, according to EBI. However, if we are unable to capture the market in time and maintain our existing market share in the market, our results of operations may be adversely affected.

The Japanese Economy

We conduct all of our operations in Japan and in each of the financial years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014 derived all of our revenue from the domestic Japanese market. Customers' spending on pachinko forms part of their disposable income and the level of personal disposable income is generally influenced by the changes in GDP. Therefore, customers' spending in the pachinko industry as a whole is in turn impacted by the changes in Japan's GDP. The meagre growth in GDP in Japan for the past decade and the recent recession as represented by the contraction of Japan's GDP in the first two quarters in 2014, as well as the recent consumption tax hike, from 5% to 8%, in April 2014, led to a reduction in overall spending by consumers in Japan. If the Japan economy does not stage positive growth in the coming years, the pachinko players' spending and our results of operation may be adversely affected.

Our operations in the ten prefectures in Japan

As at the Latest Practicable Date, our Group operated pachinko halls in ten prefectures of Northeast Honshu (本州島東北), Japan, namely: (1) in the Tōhoku Region (東北地方): Fukushima Prefecture (福島県), Miyagi Prefecture (宮城県) and Yamagata Prefecture (山形県); (2) in the Kantō Region (関東地方): Tokyo (東京都), Ibaraki Prefecture (茨城県), Gunma Prefecture (群馬県), Kanagawa Prefecture (神奈川県), Tochigi Prefecture (栃木県) and Saitama Prefecture (埼玉県); and (3) in the Chūbu Region (中部地方): Niigata Prefecture (新潟県). These ten prefectures had a total population of 47.4 million as at 31 December 2013 and real GDP of ¥202.9 trillion in 2013, representing 37.7% and 38.6% of the total population as at 31 December 2013 and real GDP of Japan in 2013, respectively. From 2014 to 2018, for these ten prefectures, it is forecasted that its population will remain stable and its total real GDP will increase slightly, while for the whole of Japan, it is forecasted that its population will decrease slightly while its real GDP will increase slightly. The real GDP of these ten prefectures is forecasted to increase by CAGR of 1.5% from 2014 to 2018 while that of the entire Japan is forecasted to increase by CAGR of only 0.9% in the same period. Such stable population and growth in real GDP in these ten prefectures are likely to provide us with a favourable environment for future expansion.

In particular, Fukushima Prefecture (福島県) is our most important strategic location, in which our headquarters, one hotel and 20 of our halls (as at the Latest Practicable Date) are located and with the highest number of our halls and machines. Our halls in Fukushima Prefecture (福島県) accounted for 40.1%, 40.7%, 40.5% and 42.7% of our total revenue during the Track Record Period, respectively. In March 2011, the Great East Japan Earthquake initially forced the temporary closure of our halls in Fukushima. That incident, however, did not cause much negative impact on our hall business. See "Business — Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake" for details. The Directors have observed that, after the earthquake, the general public was more willing to spend more time in pachinko halls to experience the sense of community. Further, there has been a growth of working population in Fukushima, partly attributable to the rebuilding efforts, which also brought about more spending in our halls. The gross pay-ins for halls in Fukushima for the year ended 31 March 2013 amounted to ¥109,917 million, representing an increase of 12.9% compared to ¥97,367 million for the year ended 31 March 2012. However, if natural disasters strike the Fukushima area again in the future, we cannot be certain that our results of operation would remain as unaffected as before.

Competition from other forms of entertainment

Since its introduction in the 1940's, Pachinko has became an established form of entertainment in Japan that incorporates an element of chance. However, in recent years, pachinko operators have been facing competition from gaming activities, namely, horse-racing, bicycle-racing, boat-racing and auto-racing whose target customers overlap with ours. The rise of video games, the internet and other mobile entertainment services, also fuelled the competition that pachinko operators face. In addition, the Diet was previously examining a bill legalising the operations of casinos in Japan in 2014, though, as advised by our Japan Legal Adviser, this bill has since been discarded and there is no longer any formal legislative procedure to consider the legalisation of casino operations in Japan. However, if casino is eventually legalised, pachinko operators will face additional competition.

Competition among pachinko hall operators

Competition among pachinko hall operators is intense. According to EBI, the pachinko market is highly fragmented. There were more than 3,800 pachinko hall operators with approximately 11,893 halls in Japan as of 2013, with only eight large scale operators with over 50 halls each. At the same time, the market size for pachinko shrank at a compound rate of 2.8% from 2009 to 2013.

Our Directors believe that pachinko and pachislot players take into account the following factors when they choose which pachinko hall to visit:

- Selection of machines — whether the variety of machine offerings matches customer tastes in terms of machines titles, jackpot probability, jackpot size and playing cost

- payout ratio of pachinko and pachislot machines and prize mark-up in the hall — whether they are competitive enough as compared to nearby halls

- Cleanliness of the halls and the friendliness of the hall staff — whether the hall environment and services provide a comfortable playing experience

- Location — whether the location of our hall is convenient and close to the playing population and whether it has parking facilities

From an operator's perspective, we consider payout ratio, G-prize mark-up, and machine offerings as the most important factors in attracting traffic to our halls. Any change of the payout ratio and G-prize mark-up will impact our revenue margin, as well as the amount of net revenue we earn from our players spending in our halls.

Furthermore, the more frequent we replace the existing machines with machines with the latest new titles, the better chance we can retain and attract pachinko players. However, this will also increase our machine expenses. Therefore, it is vital that we can find the optimal point in our operation whereby the incremental cost incurred would not exceed the amount of additional revenue so produced.

Our Directors believe that with:

(i) our advanced management information system providing us with real time data on the utilisation and financial performance of our machines;

(ii) our well established relationships with machine manufacturers and priority in securing the newest machine models; and

(iii) our monitoring team constantly gathering information about our competitors' behaviours;

we are equipped with the necessary tools to operate and react efficiently to remain competitive.

Operating efficiency

Our operating efficiency are key to our results of operation and financial results. During the Track Record Period, our hall operating expenses accounted for 67.9%, 66.9%, 67.4%, 70.0% and 74.8% of our total revenue for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively, while our administrative and other operating expenses accounted for 10.9%, 12.6%, 13.7%, 12.3% and 18.0% of our total revenue for the corresponding year/period, respectively. Our key operating cost included cost of pachinko machines, staff cost for hall staff, and rental expenses as included in our hall operating expenses, and advertising expense as included in our administrative and other operating expenses.

Through our centralised management strategy, we seek to achieve greater operational efficiency and cost controls through standardisation in the branding and building of, the procurement of general prizes and other supplies for use in our pachinko halls across Northeast Honshu (本州島東北) and bulk purchase of advertising space or air time from the media. However, if we are unable to control our cost and we unable to pass such cost to our customers, our results of operations may be adversely affected.

Sensitivity analysis

For illustrative purpose, the following sets out the sensitivity analysis in respect of the impact of hypothetical changes in (i) revenue margin; and (ii) pachinko and pachislot machines expenses.

(i) ***Revenue Margin***

Hypothetical Fluctuation in percentage points	+1%	-1%	+3%	-3%
		(¥, in millions)		
Impact on Consolidated Statements of Comprehensive Income Items for the six months ended 30 September 2014				
Change in revenue	910	(910)	2,730	(2,730)
Change in profit before income tax	910	(910)	2,730	(2,730)
Change in profit after income tax	590	(590)	1,769	(1,769)
Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2014				
Change in revenue	2,364	(2,364)	7,093	(7,093)
Change in profit before income tax	2,364	(2,364)	7,093	(7,093)
Change in profit after income tax	1,475	(1,475)	4,426	(4,426)
Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2013				
Change in revenue	2,422	(2,422)	7,267	(7,267)
Change in profit before income tax	2,422	(2,422)	7,267	(7,267)
Change in profit after income tax	1,511	(1,511)	4,534	(4,534)
Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2012				
Change in revenue	2,250	(2,250)	6,749	(6,749)
Change in profit before income tax	2,250	(2,250)	6,749	(6,749)
Change in profit after income tax	1,345	(1,345)	4,036	(4,036)

(ii) ***Pachinko and pachislot machines expenses***

Hypothetical Fluctuation	+5%	-5%	+10%	-10%
		(¥, in millions)		
Impact on Consolidated Statements of Comprehensive Income Items for the six months ended 30 September 2014				
Change in pachinko and pachislot machines expenses	224	(224)	448	(448)
Change in profit before income tax	(224)	224	(448)	448
Change in profit after income tax	(145)	145	(290)	290
Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2014				
Change in pachinko and pachislot machines expenses	411	(411)	822	(822)
Change in profit before income tax	(411)	411	(822)	822
Change in profit after income tax	(256)	256	(513)	513
Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2013				
Change in pachinko and pachislot machines expenses	397	(397)	795	(795)
Change in profit before income tax	(397)	397	(795)	795
Change in profit after income tax	(248)	248	(496)	496
Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2012				
Change in pachinko and pachislot machines expenses	358	(358)	716	(716)
Change in profit before income tax	(358)	358	(716)	716
Change in profit after income tax	(214)	214	(428)	428

The opening of new pachinko halls

Opening of new pachinko halls is one of the most direct means to increase our reach to our target customer base. Currently, we plan to open a total of seven halls by 31 March 2018. The opening of new hall requires substantial capital investment upfront for hall construction and furnishing hall with necessary equipment and supplies including pachinko and pachislot machines. Meanwhile, it takes time to build up player traffic and spending, and hence gross pay-ins, in a newly established hall and additional working capital is required to fund the operation before these new halls turn around and start to achieve net operating cash inflows. The demographics, level of disposable income of pachinko customers and the competitive landscape in a particular location varies and can be beyond our control after new halls are constructed and open.

As discussed in "Business — New Hall Development", when selecting a location for opening a new hall, we consider the following characteristics of the targeted region: (1) its proximity to Fukushima Prefecture (福島) and Tokyo (東京都) (and it is located in Northeast Honshu (本州島東北)); (2) its proximity to our own halls; (3) the population density and demographic, (4) the number of competing halls, (5) the number of machines in the competing halls; and (6) the average number of players per machine. As a general rule, for our suburban halls, there will be commercial areas within a 15 minute drive radius, and such radius must cover at least 50,000 people and have at least 18 people (above 18 years old) per machine (owned by all operators). We will only open halls with an anticipated investment payback period of up to seven years. However, if we are unable to expand according to our plan, or our assessment of location for opening halls proves to be incorrect, our expansion plan may fail and our results of operation may be adversely affected.

Increase in consumption tax in Japan

The increase in consumption tax in Japan has negatively impacted our gross pay-ins and in turn our overall operating results. From 1 April 2014, Japan's consumption tax rate increased from 5% to 8%. As the players' spending in our halls are subject to consumption tax, we are required by law to collect such amount and pay to the government. According to our accounting policies, we record the consumption tax net of gross pay-ins, i.e. when a player rents 100 ¥1 balls with us, we record a gross pay-ins of ¥92 only. As such, our gross pay-ins decreased, and this has a negative impact on our revenue and revenue margin. Any further increase in consumption tax rate will exert further pressure on our revenue margin and will adversely affect our revenue and results of operations accordingly.

Policies and regulations relating to the pachinko industry

Policies and regulations implemented by the Japanese government relating to our industry may significantly affect customer demand and behaviour as well as the various operating metrics that impact our results of operations. For example, a regulation was introduced by the Japanese government in 2006 which reduced the jackpot size brought about a sharp drop in the popularity of pachinko and pachislot and adversely impacted the operating results of pachinko hall operators across the industry, including us. Any similar or additional regulatory changes may adversely impact our operating results further.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The principal accounting policies adopted in preparation of our financial information are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) which are carried at fair value. A summary of such principal accounting policies adopted in the preparation of our financial information is set out in Note 2 of Section II to the accountant's report in Appendix I. The following is a discussion of those accounting policies that we believe are most critical in preparing our financial information.

Revenue recognition

We recognise revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Type of revenue/income	Basis of recognition and timing
Revenue from pachinko and pachislot business	Representing gross pay-ins, net of the gross payouts to customers. Revenue is recognised at the end of each player's visit to a machine.[(1)]
Hotel income	Hotel is recognised at the time of occupancy.
Vending machine income	Recognised on a straight line basis over the accounting periods covered by the terms and conditions as stipulated in their respective agreement (the monthly rental received). Contingent vending machine income is recognised in the accounting period in which they are earned (a certain % of sales derived from the vending machines).
Interest income	Recognised on a time-proportion basis using the effective interest method.
Income from expired IC and membership cards	Representing unused cash balances stored in IC cards and membership cards. Recognised upon the expiry of such cards.[(2)]
Dividend income	Recognised when the right to receive payment is established
Sundry income	Recognised when the right to receive payment is established.

Notes:

1 Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of our Group when those inflows result in increase in equity, other than increases relating to contributions from equity participants. The ordinary activity of our Group is the operation of pachinko and pachislot halls to generate economic benefits from customers' visits to the pachinko or pachislot machines. Gross pay-ins represents the amount received from customers for rental pachinko balls and pachislot tokens. Customers utilise such rented pachinko balls and pachislot tokens as they visit the machines and our Group makes payouts to the customers based on the result of their game. Gross pay-outs represents the aggregate cost of G-prizes and general prizes exchanged by customers. As such, the gross inflow of economic benefits to our Group represents the gross pay-ins, net of the gross pay-outs to customers. Therefore, revenue from pachinko and pachislot business is recognised as gross pay-ins net of gross payouts.

2 Cash balances stored in membership cards expire when the player does not play with the membership card for 90 consecutive days. Cash balances stored in IC cards expire 21 days after purchase.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to our chief operating decision-maker. We present our results of operations in two reporting segments (i) pachinko and pachislot hall operations, which includes vending machine income; and (ii) others (representing hotel operations).

Investment properties

Investment properties, principally comprising land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by our Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Investment properties are then stated at historical cost less accumulated depreciation and impairment losses.

Depreciation of investment properties is calculated using the straight-line method their estimated useful lives amounted to 27 to 31 years.

Property, plant and equipment

Land and buildings comprise mainly pachinko and pachislot halls and offices. All property, plant and equipment are stated at historical cost less depreciation, except freehold land which is not subject to amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is stated at cost less impairment loss. It is not depreciated until completion of the construction and the relevant assets are available for use.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings	20 to 40 years
- Leasehold improvement	Shorter of lease term or useful lives
- Equipment and tools	2 to 20 years
- Motor vehicles	2 to 5 years

We review the residual values and useful lives of our property, plant and equipment at the end of each reporting date and adjust such as necessary.

Impairment of non-financial assets (property, plant and equipment, investment properties and intangible assets)

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances (i.e. when the asset gives rise to negative operating cash flow or there is a significant diminution in fair value of such asset) indicate that the carrying amount (book value) may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Financial assets

(a) ***Classification***

We classify our financial assets in the following categories according to IFRS 9: "Financial Instruments": (i) financial assets at amortised costs (such as non-current portion of rental prepayments) and (ii) financial assets (i.e. listed shares and debt securities we held in the Track Record Period) at fair value. Our management determines the classification of its financial assets at initial recognition and depends on whether the financial asset is a debt or equity instrument.

Financial assets at amortised costs

Financial assets at amortised costs are debt instruments that meet our Group's business model for holding the investments to collect contractual cash flows and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value

All equity instruments are measured at fair value. Equity instruments that are held for trading are measured at fair value through profit or loss. For all other equity instruments, we can make an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss. We have chosen to recognise the movements of fair value of all our equity securities to other comprehensive income in the Track Record Period. All debt instruments not accounted for under amortised cost are measured at fair value.

(b) ***Recognition***

Financial assets are recognised on the trade-date — the date on which our Group commits to purchase or sell the asset. Financial assets are derecognised when our group has transferred substantially all risks and rewards of ownership.

(c) ***Measurement at recognition***

	Types of Financial Assets	Recognition and measurement
•	Financial assets at amortised costs	Measured at amortised cost using the effective interest method.
•	Financial assets carried at fair value	Financial assets carried at fair value through profit or loss — initially recognised at fair value, and transaction costs are expensed in the consolidated statements of comprehensive income Financial assets carried at fair value through other comprehensive income — initially recognised at fair value plus transaction costs

(d) ***Subsequent measurement for changes in fair value***

	Types of assets / income	Subsequent measurement
•	Financial assets at amortised cost	Profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method
•	Financial assets at fair value	Financial assets at fair value through profit or loss — Presented in the consolidated statements of comprehensive income within 'Other losses - net' in the period in which they arise Financial assets at fair value through other comprehensive income — Recognised in other comprehensive income

Types of assets / income	Subsequent measurement
	Debt instrument that is subsequently measured at fair value — Profit or loss and presented in the consolidated statements of comprehensive income within other (losses)/gains - net in the period in which they arise Dividend income is recognised as other income in consolidated statements of comprehensive income when our right to receive payments is established

Impairment of financial assets

We assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, among others.

Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs included fees paid on the establishment of loan facilities and are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless our Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Leases

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

Finance lease

Leases of property, plant and equipment where we have substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statements of comprehensive income over the lease period so as to produce a constant interest rate on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Critical accounting estimates and judgments

Accounting estimates and judgments made are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. We make estimates and assumptions concerning the future and by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (i.e. the year ending 31 March 2015) are addressed below.

Income taxes

We are subject to income taxes in Japan. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market (for example, unlisted securities) is determined by using valuation techniques. We use its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Impairment assessment of property, plant and equipment

We have substantial investments in property, plant and equipment. Judgment is required in the area of asset impairment, particularly in assessing:

(1) whether an event has occurred that may indicate that the related asset values may not be recoverable;

(2) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or value-in-use, which is the net present value of future cash flows which are estimated based upon the continuous use of the asset in the business; and

(3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

Variations in the assumptions used to determine the level could materially affect the net present value used in the impairment test and as a result affect our financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment change to the profit or loss.

Classification of leases

Determining whether a lease transaction is a finance lease or an operating lease requires judgment as to whether the lease agreement transfers substantially all the risks and rewards of ownership to or from our Group. Judgment is required on aspects including, but not limited to, the following:

(1) the fair value of the leased asset;

(2) the economic life of the leased asset;

(3) whether renewal options are included in the lease term; and

(4) determining an appropriate discount rate to calculate the present value of the minimum lease payments.

In the Track Record Period, there were no significant change in the estimates mentioned above, and we did not notice significant deviation of our accounting estimates comparing with the actual results. Apart from the critical accounting estimates and judgments as mentioned above, we did not expect our accounting estimates to change materially in the coming financial year.

RESULTS OF OPERATIONS OF OUR GROUP

The table below shows our selected consolidated statements of comprehensive income and other financial information for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, as derived from the accountant's report of our Company set out in Appendix I to this Prospectus.

	Year ended 31 March			Six months ended 30 September	
	2012	**2013**	**2014**	**2013**	**2014**
			(¥, in millions)		
				(unaudited)	
Gross pay-ins	224,968	242,217	236,449	120,674	90,989
Less: gross payouts	(195,340)	(210,298)	(203,455)	(104,682)	(75,798)
Revenue from pachinko and pachislot business	29,628	31,919	32,994	15,992	15,191
Other revenue (Note)	724	832	853	437	381
Revenue	30,352	32,751	33,847	16,429	15,572
Other income	1,115	446	378	182	801
Other losses, net	(504)	(20)	(97)	(81)	(25)
Hall operating expenses	(20,609)	(21,909)	(22,798)	(11,494)	(11,644)
Administrative and other operating expenses	(3,319)	(4,126)	(4,636)	(2,013)	(2,808)
Operating profit	7,035	7,142	6,694	3,023	1,896
Finance income	66	63	58	28	88
Finance costs	(794)	(720)	(744)	(368)	(357)
Finance costs, net	(728)	(657)	(686)	(340)	(269)
Profit before income tax	6,307	6,485	6,008	2,683	1,627
Income tax expense	(2,978)	(2,720)	(2,310)	(1,060)	(690)
Profit for the year/period attributable to shareholders of the Company	3,329	3,765	3,698	1,623	937
Other comprehensive income					
Item that may be reclassified to profit or loss					
Change in value of financial assets through other comprehensive income	16	124	433	163	(39)
Total comprehensive income for the year/period attributable to shareholders of the Company	3,345	3,889	4,131	1,786	898
Dividends	110	110	183	183	183
Earnings per share for profit attributable to shareholders of the Company					
- Basic and diluted (expressed in Japanese Yen per share)	855	967	949	417	241

Note: Other revenue comprises (i) vending machine income and (ii) revenue from hotel operations.

Description of Components of Results of Operations

Gross pay-ins

Our gross pay-ins represent the amount received from customers for rental pachinko balls and pachislot tokens. Our gross pay-ins were ¥224,968 million, ¥242,217 million, ¥236,449 million, ¥120,674 million and ¥90,989 million for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2013 and 2014, respectively.

The table below shows the aggregate gross pay-ins by hall type for the indicated periods.

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
Suburban(Note)	206,437	*91.8*	224,493	*92.7*	219,455	*92.8*	111,650	*92.5*	84,175	*92.5*
Urban(Note)	18,531	*8.2*	17,724	*7.3*	16,994	*7.2*	9,024	*7.5*	6,814	*7.5*
Total	**224,968**	***100.0***	**242,217**	***100.0***	**236,449**	***100.0***	**120,674**	***100.0***	**90,989**	***100.0***

Note: According to our accounting policy, gross pay-ins are booked net of consumption tax, i.e., in the six months ended 30 September 2014, ¥92 gross pay-ins would only be recorded if a player rented 100 ¥1 balls with us, as the consumption tax rate is 8%. The consumption tax rate was 5%, 5%, 5% and 8% for the year ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively.

The table below shows the average gross pay-ins per hall by hall type for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for number of halls)									
	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls
Suburban	4,915	42	5,221	43	4,988	44	2,538	44	1,913	44
Urban	2,316	8	1,969	9	1,888	9	1,003	9	757	9
Total	**4,499**	**50**	**4,658**	**52**	**4,461**	**53**	**2,277**	**53**	**1,717**	**53**

The table below shows the mix of pachinko machines by playing cost for each hall type as at the indicated periods:

	As at 31 March						As at 30 September			
	2012		2013		2014		2013		2014	
	(number of machines, except for percentages)									
		%		%		%		%		%
Suburban										
High playing cost[1]	9,042	*60.4*	9,140	*59.1*	9,792	*61.7*	9,358	*58.9*	9,204	*57.9*
Low playing cost[2]	5,940	*39.6*	6,324	*40.9*	6,087	*38.3*	6,543	*41.1*	6,691	*42.1*
Sub-total	**14,982**	***100.0***	**15,464**	***100.0***	**15,879**	***100.0***	**15,901**	***100.0***	**15,895**	***100.0***
Urban										
High playing cost[1]	899	*57.3*	891	*52.5*	877	*51.7*	877	*51.7*	848	*50.9*
Low playing cost[2]	670	*42.7*	805	*47.5*	819	*48.3*	819	*48.3*	819	*49.1*
Sub-total	**1,569**	***100.0***	**1,696**	***100.0***	**1,696**	***100.0***	**1,696**	***100.0***	**1,667**	***100.0***
Total	**16,551**		**17,160**		**17,575**		**17,597**		**17,562**	

(1) Comprises pachinko machines with playing costs of ¥4 per ball.

(2) Comprises pachinko machines with playing costs below ¥4 per ball.

The table below shows the mix of pachislot machines by playing cost for each hall type as at the indicated periods:

	As at 31 March						As at 30 September			
	2012		2013		2014		2013		2014	
	(number of machines, except for percentages)									
		%		%		%		%		%
Suburban										
High playing cost[1]	6,045	*88.8*	6,389	*87.5*	6,644	*87.0*	6,155	*81.2*	6,545	*83.5*
Low playing cost[2]	765	*11.2*	913	*12.5*	990	*13.0*	1,428	*18.8*	1,289	*16.5*
Sub-total	**6,810**	***100.0***	**7,302**	***100.0***	**7,634**	***100.0***	**7,583**	***100.0***	**7,834**	***100.0***
Urban										
High playing cost[1]	511	*100.0*	635	*93.5*	605	*89.1*	605	*89.1*	634	*89.5*
Low playing cost[2]	—	*0.0*	44	*6.5*	74	*10.9*	74	*10.9*	74	*10.5*
Sub-total	**511**	***100.0***	**679**	***100.0***	**679**	***100.0***	**679**	***100.0***	**708**	***100.0***
Total	**7,321**		**7,981**		**8,313**		**8,262**		**8,542**	

(1) Comprises pachislot machines with playing costs of ¥20 per token.

(2) Comprises pachislot machines with playing costs below ¥20 per token.

During the Track Record Period, our suburban halls contributed over 90% of our total gross pay-ins. Around 60% of the pachinko machines and over 80% of the pachislot machines in suburban halls were high playing cost machines. In our urban halls, approximately 50% to 60% of the pachinko machines and approximately 90% of the pachislot machines were high playing cost machines. We will continue to monitor and adjust the mix of machines in our halls in response to our customers' demands and competitors' strategies with the objective to capture the most business from the playing population.

The table below shows the average number of pachinko and pachislot machines per hall by playing cost for each hall type for the indicated periods.

	As at 31 March			As at 30 September	
Pachinko and pachislot machines	**2012**	**2013**	**2014**	**2013**	**2014**
Suburban					
High playing cost	359	361	373	353	358
Low playing cost	160	168	161	181	181
Total	**519**	**529**	**534**	**534**	**539**
Urban					
High playing cost	176	170	165	165	165
Low playing cost	84	94	99	99	99
Total	**260**	**264**	**264**	**264**	**264**

The average number of pachinko and pachislot machines in suburban halls increased from 519 machines per hall to 539 machines per hall from 31 March 2012 to 30 September 2014. The number of machines per hall in our urban halls remained stable at around 264 machines per hall during the Track Record Period. Such changes in the number of machines per hall in our operation was in line with the market trend.

The table below shows the utilisation rate for low and high playing cost pachinko and pachislot machine in our halls for the indicated periods.

	Year ended 31 March			Six months ended 30 September	
Pachinko machines[(1)]	**2012**	**2013**	**2014**	**2013**	**2014**
	%	%	%	%	%
High playing cost	34.4	31.8	27.9	30.0	20.9
Low playing cost[(2)]	39.6	37.3	35.8	37.8	33.7
Overall	**37.3**	**34.9**	**32.2**	**34.5**	**27.5**

Pachislot machines[3]	Year ended 31 March 2012	2013	2014	Six months ended 30 September 2013	2014
	%	%	%	%	%
High playing cost	31.0	29.1	27.9	28.0	22.7
Low playing cost[2]	30.7	30.2	29.0	31.4	23.0
Overall	**31.0**	**29.3**	**28.4**	**29.2**	**22.8**

(1) The pachinko machine utilisation rate is calculated by dividing the average number of balls played per day by the maximum number of balls allowed to be played under the machine settings per day. The maximum number of balls allowed to be played under the machine settings played per day is defined as the maximum number of balls allowed to be played under the machine settings per hour (i.e. 6,000 balls) multiplied by the number of operating hours per day (i.e. 13.5 hours).

(2) Historically, low playing cost machines have a higher utilisation rate, as we believe players tend to stay longer with these machines for entertainment purpose.

(3) The pachislot machine utilisation rate is calculated by dividing the average number of tokens played per day by the maximum number of tokens allowed to be played under the machine settings per day. The maximum number of tokens allowed to be played under the machine settings per day is defined as the maximum number of tokens allowed to be played under the machine settings per hour (i.e. 2,634 tokens) multiplied by the number of operating hours per day (i.e. 13.5 hours).

Throughout the Track Record Period, we note that the machine utilisation rate was declining. We believe that this was mainly attributable to the decreasing overall spending by customers, as well as the growing number of machines installed in our halls.

Gross payouts

Gross payouts, which represents the aggregate cost of G-prizes and general prizes exchanged by our customers, amounted to ¥195,340 million, ¥210,298 million, ¥203,455 million, ¥104,682 million and ¥75,798 million for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively. The table below shows the breakdown of our gross payouts by hall type for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
Suburban	179,324	*91.8*	195,151	*92.8*	189,003	*92.9*	96,924	*92.6*	70,207	*92.6*
Urban	16,016	*8.2*	15,147	*7.2*	14,452	*7.1*	7,758	*7.4*	5,591	*7.4*
Total	**195,340**	***100.0***	**210,298**	***100.0***	**203,455**	***100.0***	**104,682**	***100.0***	**75,798**	***100.0***

The table below shows a breakdown of the average gross payouts per hall by hall type for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for number of halls)									
	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls
Suburban	4,270	42	4,538	43	4,296	44	2,203	44	1,596	44
Urban	2,002	8	1,683	9	1,606	9	862	9	621	9
Total	**3,907**	**50**	**4,044**	**52**	**3,839**	**53**	**1,975**	**53**	**1,430**	**53**

The redemption value of G-prizes and general prizes is subject to the level of mark-up which we determine and apply. The higher the mark-up added onto the cost of prizes, the lower the gross payouts would be in redeeming the same amount of balls for prize.

Our general prize (excluding our private brand products) mark-up ranged from 18% to 25%, while our private brand product mark-up was higher, ranging from 43% to 46%. Our Directors have confirmed that there was no material change in our general prize mark-ups (including our private brand products) during the Track Record Period and up to the Latest Practicable Date.

We had no G-prize mark-up during the three years ended 31 March 2014. With effect from 1 April 2014, consumption tax in Japan was increased from 5% to 8%. Significantly, this would have reduced our revenue margin by 3% and also our revenue as we had to bear such tax increase on our gross pay-ins. To counter this, also effective from 1 April 2014, we imposed G-prize mark-ups for all of our halls ranging from 4% to 20% (with an average of around 10%). For example, a mark-up of 10% means a G-prize with a value of ¥5,000 will require an amount of balls or tokens worth ¥5,500 to be exchanged. We applied different G-prize mark-ups (with an objective of maximising our revenue) for different playing costs and game types and in different halls, depending on relevant factors such as player sensitivity to mark-ups and competitors' behavior. In our Directors' view based on market observations, the G-prize mark-ups applied in our halls in Fukushima Prefecture (福島県) were generally similar to that imposed by our major competitors, while some pachinko operators in other areas (such as the Kantō Region (関東地方)) adopted mark-up strategies that were different from ours. Even though such G-prize mark-ups (imposed during the six months ended 30 September 2014) was a key factor in the 24.6% decrease in our gross pay-ins, they also helped increase our revenue margin from 13.3% to 16.7% and ultimately led to a mere drop in revenue by 5.2% (compared to the corresponding period of the previous year).

After the Track Record Period (namely, in December 2014), we cancelled the G-prize mark-ups for 17 of our halls (all located in the Kantō Region (関東地方)) as some competing halls nearby did not adopt such mark-ups. For these 17 halls[1], the gross pay-ins attributable to them accounted for 34.5%, 34.0%, 35.3%, 34.8% and 34.1% of our total gross pay-ins, while the revenue attributable to them accounted for 35.1%, 35.7%, 36.4%, 36.3% and 34.3% of our revenue from pachinko and pachislot business, for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively. Such cancellation of G-prize mark-ups will directly cause an increase in gross payouts and a decrease in the revenue margin of such halls. Nevertheless, our Directors expect such cancellation will improve the player traffic (and consequently gross pay-ins) of such halls by attracting players who are relatively sensitive to G-prize mark-ups. Ultimately, the revenue of such halls will also improve if the increase in gross pay-ins is greater than the increase in gross payouts, though this will further depend on a range of interrelated metrics and factors (with G-prize mark-ups being but one of them) that our Directors take into account when they pursue our business objective of maximising our revenue (by striking an optimal balance between gross pay-ins and revenue margin). See "— Financial and Operational Metrics of Our Business" in this section above for details on the impact of G-prize mark-ups on our gross pay-ins, revenue margin and revenue, as well as our other metrics and our business objective. Further, our Directors have confirmed that, saved as disclosed above, there was no material change in our G-prize mark-ups during the Track Record Period and up to the Latest Practicable Date. Going forward, we will continue to monitor and adjust our G-prize mark-ups (with an objective of maximising our revenue), taking into account all relevant factors, such as player sensitivity to mark-ups and competitors' behavior.

Revenue

Our total revenue comprises (i) revenue from pachinko and pachislot business, representing gross pay-ins less gross payouts; (ii) rental income from and revenue sharing with vending machine operators for machines placed in our halls; and (iii) revenue from hotel operations in respect of our hotel in Koriyama. Our total revenue amounted to ¥30,352 million, ¥32,751 million, ¥33,847 million, ¥16,429 million and ¥15,572 million for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively.

Revenue and revenue margin of our pachinko and pachislot business are affected by the level of gross pay-ins and gross payouts. Gross pay-ins is primarily affected by the level of customer spending at our halls, which is in turn largely affected by: (1) G-prize mark-ups; (2) payout ratios; (3) number, types and mixes of machines; (4) number and types of halls; (5) number and playing time of customers; (6) competitors' behavior and the general trend of the pachinko industry; and (7) macroeconomic factors (including tax and inflation). Gross payouts is to a large extent affected by G-prize mark-ups and payout ratios.

1 These 17 halls are the halls numbered 29, 34 to 40, 42 to 44, 48 to 51 and 53 to 54 as indicated in the map in "Business — Pachinko and Pachislot Hall Operations — Geographical Focus in Northeast Honshu (本州島東北)".

Also included in our revenue were (i) vending machine income represented the rental income and concession income for sharing of the gross receipts of such vending machines; and (ii) revenue from hotel operations for our hotel in Koriyama. The total of such amounted to 2.4%, 2.5%, 2.5%, 2.7% and 2.4% of our total revenue in the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively.

Despite the shrinkage of the pachinko market in general, we were able to achieve an increase in revenue in the year ended 31 March 2012, 2013 and 2014, and only suffered a slight decrease in revenue in the six months ended 30 September 2014 due to our efforts to raise our revenue margin.

The table below shows a breakdown of our total revenue during the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥ (unaudited)	%	¥	%
Revenue from pachinko and pachislot business										
Suburban halls	27,113	89.3	29,342	89.6	30,452	90.0	14,727	89.6	13,968	89.7
Urban halls	2,515	8.3	2,577	7.9	2,542	7.5	1,265	7.7	1,223	7.9
Sub-total	29,628	97.6	31,919	97.5	32,994	97.5	15,992	97.3	15,191	97.6
Vending machine income(Note 1)	724	2.4	748	2.3	704	2.1	362	2.2	301	1.9
Revenue from pachinko and pachislot hall operations	30,352	100.0	32,667	99.7	33,698	99.6	16,354	99.5	15,492	99.5
Hotel operations(Note 2)	—	0.0	84	0.3	149	0.4	75	0.5	80	0.5
Total revenue	**30,352**	**100.0**	**32,751**	**100.0**	**33,847**	**100.0**	**16,429**	**100.0**	**15,572**	**100.0**

Notes:

(1) The total of (i) vending machine income and (ii) revenue from hotel operations equals to "Other revenue" in the statements of comprehensive income as set out in Appendix I to this Prospectus.

(2) The hotel was temporarily closed in the year ended 31 March 2012 for renovation after the Great East Japan Earthquake.

Revenue Margin

Revenue margin for pachinko and pachislot business is calculated as revenue from our pachinko and pachislot business (i.e. gross pay-ins less gross payouts, divided by gross pay-ins). It represents portion of gross pay-ins that we receive as revenue, namely through customers playing our machines and our mark-ups on prize redemption. See "Results of Operations of Our Group — Description of Components of Results of Operations —Revenue" in this section above for discussion of factors impacting our revenue margin. Revenue margin for vending machine income and hotel operations are 100% in the Track Record Period as their income is recognised gross as revenue.

The table below shows a breakdown of revenue margin by type of hall for the indicated periods:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	%	%	%	%	%
Suburban	13.1	13.1	13.9	13.2	16.6
Urban	13.6	14.5	15.0	14.0	17.9
Overall	**13.2**	**13.2**	**14.0**	**13.3**	**16.7**

In general, revenue margin for our urban halls is higher than our suburban halls, since urban halls are usually smaller in terms of hall size and gross pay-ins per hall. Therefore, we need a higher margin to recoup the necessary revenue to cover our fixed overheads (in particular, land costs and rent are usually higher in the urban area than in the suburban area).

Revenue margin was rather stable for the three years ended 31 March 2014 but went up to 16.7% for the six months ended 30 September 2014. Such increase in revenue margin mainly resulted from the imposition of G prize mark-ups from 1 April 2014 onwards as a means to mitigate the negative impact on our revenue arising out of the increase in consumption tax from 5% to 8%.

Other income

Other income mainly represents (i) compensations and subsidies received from government agencies and recovery from insurance companies; (ii) rental income received from G-prize wholesalers for leasing of land in the vicinity of our halls for G-prize buyers and from investment properties; (iii) income from sales of used pachinko and pachislot machines; (iv) dividend income from equity securities and (v) income from expiry of cash balances stored in our IC and membership cards.

The table below shows a breakdown of other income for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
							(unaudited)			
Compensation and subsidies and recovery from insurance companies[(1)]	889	79.7	127	28.5	44	11.6	10	5.5	598	74.7
Rental income[(2)]	89	8.0	161	36.1	149	39.4	76	41.8	74	9.2
Income from sales of used pachinko and pachislot machines[(3)]	94	8.4	59	13.2	51	13.5	34	18.7	68	8.5
Dividend income[(4)]	4	0.4	29	6.5	67	17.7	35	19.2	34	4.2
Income from expiry of cash balances stored in IC card and membership card[(5)]	36	3.2	41	9.2	40	10.6	21	11.5	18	2.2
Others[(6)]	3	0.3	29	6.5	27	7.1	6	3.3	9	1.1
Total	**1,115**	**100.0**	**446**	**100.0**	**378**	**100.0**	**182**	**100.0**	**801**	**100.0**

(1) The amount mainly represents compensations and subsidies from various government and semi-governmental organisations in Japan, such as the subsidies from (i) the Fukushima Labour Bureau* (福島労働局) for employing disabled staff, (ii) Fukushima Labour Bureau* (福島労働局) for employing people who were victims of the Great East Japan Earthquake on 11 March 2011 and (iii) compensation received from the Centre for Development of Power Supplies of Japan* (電源地域振興 センター) for being located in the proximity of a nuclear power plant. The amount also included recovery from insurance companies in the year ended 31 March 2012 on the loss from a fire incident in one of our halls in May 2011. The balance in 30 September 2014 also consisted of compensation from the Tokyo Electric Power Company for the Great East Japan Earthquake on 11 March 2011. See Note 6 of the Accountant's Report set out in Appendix I for further details.

(2) The amount mainly represents rental income received from G-prize wholesalers for leasing of land in the vicinity of our halls, and rental income from leasing of our investment properties. The rental income in the years ended 31 March 2013 and 2014 also included rental income from subleasing of a piece of land originally rented by us for expansion of our pachinko and pachinko hall operations. All leases in relation to this piece of land was terminated in the year end 31 March 2014.

(3) The amount represents the income from the sales of used pachinko and pachislot machines. According to our accounting policies, pachinko and pachislot machines are recognised as inventory when they are acquired, and are expensed in the consolidated statements of comprehensive income upon installation. As a result, the net proceeds from sales of used pachinko and pachislot machines are recognised as other income.

(4) Dividend income represents dividend received from equity securities held in the Track Record Period.

(5) Income from expiry of cash balances of IC card and membership card represents the income earned when the cash balances stored in IC cards and membership cards expired. Based on the terms of membership card and IC card in force in the Track Record Period, the cash balances stored in the membership cards expire after the customer stops playing for a consecutive period of 90 days while the cash balances stored in IC cards expire 21 days after purchase and such cash balances were recognised as other income upon expiry.

(6) Others include income derived from the sale of agricultural produce of Merrist's business.

Other losses, net

Other losses, net mainly represents (i) the loss on disposal of property, plant and equipment, and loss from the fire incident, (ii) net exchange gain/(loss), (iii) gain/(loss) on movement of fair value of financial assets, (iv) gain/(loss) on fair value for interest rate swap, and (v) gains or losses on disposal of financial assets at fair value through profit or losses.

The table below shows a breakdown of other losses, net for the indicated periods.

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
							(unaudited)			
Loss on disposal of property, plant and equipment and fire incident[1]	(537)	106.5	(24)	120.0	(101)	104.1	(85)	104.9	(39)	156.0
Net exchange (loss)/gain[2]	(3)	0.6	10	-50	3	-3.1	—	0.0	—	0.0
(Loss)/gain on fair value for financial assets at fair value through profit or loss[3]	(8)	1.6	11	-55	5	-5.2	2	-2.5	4	-16.0
Gain/(loss) on fair value for interest rate swap[4]	44	-8.7	11	-55	(4)	4.1	(3)	3.7	10	-40
(Loss)/gain on disposal of financial assets at fair value through profit or loss[5]	—	0.0	(28)	140	—	0.0	5	-6.2	—	0.0
	(504)	**100.0**	**(20)**	**100.0**	**(97)**	**100.0**	**(81)**	**100.0**	**(25)**	**100.0**

(1) The amount mainly represents net loss from disposal of property, plant and equipment. Included in the amount for the year ended 31 March 2012 was a sum of impairment loss of ¥468 million incurred for damage to our properties from the fire in one of our halls.

(2) The amount represents the net exchange gains and losses arising from the translation of the monetary assets and liabilities denominated in currencies other than the functional currency of our Group and the transaction gains or losses arising from the difference of exchange rate between recording and settlement of expenses.

(3) The amount represents the net gains and losses arising from the change in fair value for financial assets recognised as fair value through profit and loss.

(4) The amount represents the net gains and losses arising from the change in fair value for the interest rate swap.

(5) The amount represents the net gains and losses on disposal of financial assets at fair value through profit and losses.

Hall operating expenses

Hall operating expenses amounted to 67.9%, 66.9%, 67.4%, 70.0%, and 74.8% of our total revenue in the years ended 31 March 2012, 2013, and 2014 and for the six months ended 30 September 2013 and 2014, respectively. The largest component of our hall operating expenses has been purchases of pachinko and pachislot machines. Such expenditure does not necessarily fluctuate with the trend of our monthly gross pay-ins or revenue. We usually budget our machine spendings based on the forecasted performance of our halls. However, our purchases of new machines are sometimes also dependent on timing of new release of machines from the machine manufacturers.

The table below shows a breakdown of hall operating expenses for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
							(unaudited)			
Pachinko and pachislot machine expense	7,161	34.7	7,948	36.3	8,216	36.0	4,163	36.2	4,482	38.5
Staff costs for hall staff	4,818	23.4	4,594	21.0	4,626	20.3	2,362	20.5	2,417	20.8
Rental expenses	2,198	10.6	2,261	10.3	2,364	10.4	1,147	10.0	1,326	11.4
Utilities and consumables expense	2,033	9.8	2,366	10.8	2,577	11.3	1,376	12.0	1,306	11.2
Depreciation and amortisation expenses	1,848	9.0	1,941	8.9	2,117	9.3	1,059	9.2	948	8.1
Outsourcing service fee	977	4.8	1,148	5.2	1,175	5.2	607	5.3	498	4.3
G-prize procurement expenses	755	3.7	774	3.5	804	3.5	401	3.5	399	3.4
Repairs and maintenance	294	1.4	320	1.5	328	1.4	199	1.7	116	1.0
Others	525	2.6	557	2.5	591	2.6	180	1.6	152	1.3
	20,609	**100.0**	**21,909**	**100.0**	**22,798**	**100.0**	**11,494**	**100.0**	**11,644**	**100.0**
Hall operating expenses per hall	412		421		430		217		220	

Administrative and other operating expenses

Administrative and other operating expenses mainly represent (i) staff cost, including salary, bonus and other benefits for our administrative and other non-hall staff; (ii) advertising expenses; (iii) listing expenses for the Listing; (iv) rental expenses for our warehouse and business centre; (v) depreciation expenses; (vi) recruitment expenses for recruiting staff to work in our headquarter in Koriyama and our hotel operations; (vii) travelling and transportation expenses; (viii) tax and duties which mainly includes the fixed property tax and revenue stamp duty tax in Japan; (ix) legal and professional fee representing fees paid to auditors, legal advisors and other professional parties; (x) outsourcing service fee mainly includes IT outsourcing services and cleaning service fees; (xi) utilities, repair and maintenance expenses; (xii) impairment loss on property, plant and equipment outside our hall operations; and (xiii) provision/(reversal of provision) for trade and other receivables. Administrative and other operating expenses amounted to 10.9%, 12.6%, 13.7%, 12.3% and 18.0% of our total revenue in the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2013 and 2014, respectively.

The table below shows a breakdown of administrative and other operating expenses for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
							(unaudited)			
Staff costs for administrative staff	1,331	40.1	1,891	45.8	1,318	28.4	654	32.5	1,331	47.4
Advertising expenses	939	28.3	1,231	29.8	1,362	29.4	733	36.4	680	24.2
Listing expenses	—	–	—	–	—	–	—	–	226	8.0
Rental expenses	97	2.9	101	2.4	119	2.6	72	3.6	73	2.6
Depreciation and amortisation expenses	206	6.2	84	2.0	138	3.0	69	3.4	70	2.3
Recruitment expense	34	1.0	232	5.6	253	5.5	64	3.2	64	2.3
Travelling and transportation	83	2.5	109	2.7	119	2.6	57	2.9	61	2.2
Tax and duties	85	2.6	99	2.4	100	2.2	11	0.5	54	1.9
Auditor's remuneration and legal and professional fee	35	1.1	45	1.1	53	1.1	28	1.4	50	1.8
Outsourcing service fees	25	0.8	33	0.8	48	1.0	23	1.1	32	1.1
Utilities, repair and maintenance expenses	50	1.5	90	2.2	72	1.5	37	1.8	24	0.9
Impairment loss on property, plant and equipment	124	3.7	—	–	620	13.4	—	–	—	–
Write-off/(reversal) of doubtful debts	116	3.5	(102)	-2.4	2	–	—	–	—	–
Others	194	5.8	313	7.6	432	9.3	265	13.2	143	5.3
	3,319	**100.0**	**4,126**	**100.0**	**4,636**	**100.0**	**2,013**	**100.0**	**2,808**	**100.0**

Finance income and finance cost

Finance income represents the interest income from banks, construction funds placed at certain landlords for our leased properties and debt securities. Finance cost represents the interest expense for our bank borrowings and interest swap contracts, bonds issued, and interest portion of our finance lease and provision for amortisation of initial service charges for our bank borrowings. All of our bank loans are amortising loans, in which principal of our loans is paid down over the life of the loans.

The table below shows a breakdown of finance income and finance cost for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
							(unaudited)			
Finance income										
Bank interest income	3	5	—	–	1	2	—	–	—	–
Other interest income	63	95	63	100	57	98	28	100	88	100
	66	100	63	100	58	100	28	100	88	100
Finance costs										
Bank borrowings										
- wholly repayable within 5 years	(337)	42	(212)	29	(249)	33	(121)	33	(127)	36
- Not wholly repayable within 5 years	(54)	7	(86)	12	(74)	10	(36)	10	(30)	8
Bond interest expense	(9)	1	(5)	1	(5)	1	(3)	1	(1)	–
Obligations under finance leases	(307)	39	(338)	47	(364)	49	(184)	50	(173)	48
Provision for unwinding discount	(87)	11	(79)	11	(52)	7	(24)	7	(26)	7
	(794)	100	(720)	100	(744)	100	(368)	100	(357)	100
Finance costs, net	**(728)**	**N/A**	**(657)**	**N/A**	**(686)**	**N/A**	**(340)**	**N/A**	**(269)**	**N/A**

Income tax expenses

Our income tax expenses primarily include taxes that we pay in Japan and movements in deferred income tax. Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities recorded in consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit.

We are subject to corporate income tax, temporary restoration corporation surtax, inhabitants tax, and enterprise tax in Japan, which, in aggregate, resulted in effective statutory income tax rates of approximately 40.2%, 37.6%, 37.6%, 37.6% and 35.2% for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively.

As a result of 2011 Reform Amendment Tax Law and the Special Restoration Tax Law that were promulgated on 2 December 2011, the corporate income tax rate of Japan reduced from 30% to 25.5% from fiscal years beginning on or after 1 April 2012 and 10% temporary restoration corporation surtax was introduced on the corporate income tax applicable for 3 years period from fiscal years beginning on or after 1 April 2012. The combined effect of these changes led to the decrease in effective statutory tax rate from 40.2% in the year ended 31 March 2012 to 37.6% in the year ended 31 March 2013.

As advised by our Tax Adviser, under the 2014 Tax Reform that was promulgated on 31 March 2014, 10% temporary restoration corporation surtax ceased one year ahead of schedule and do not apply for the fiscal year beginning on or after 1 April 2014 which led to decrease in our effective statutory tax rate from 37.6% in the year ended 31 March 2014 to 35.2% in the six months ended 30 September 2014. We measured the current income tax for the six months ended 30 September 2014 based on revised applicable income tax rates. The relevant deferred tax assets and liabilities as at 31 March 2014 have been remeasured at the tax rates that are expected to apply to the period when the related assets and liabilities are realised or settled.

The table below shows the tax rate applicable to us in the Track Record Period and the formula in calculating each type of tax, as advised by our Tax Adviser:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
Corporate tax rate	30.0%	25.5%	25.5%	25.5%	25.5%
Temporary restoration corporate surtax	—	10.0%	10.0%	10.0%	—
Inhabitants tax rate					
Fukushima Prefecture (福島県)	18.1%	18.1%	18.1%	18.1%	18.1%
Tokyo (東京都)	20.7%	20.7%	20.7%	20.7%	20.7%
Average:	19.4%	19.4%	19.4%	19.4%	19.4%
Enterprise tax rate					
(1) Profit-based tax rate:					
Fukushima Prefecture (福島県)	2.90%	2.90%	2.90%	2.90%	2.90%
Tokyo (東京都)	3.26%	3.26%	3.26%	3.26%	3.26%
Average:	3.08%	3.08%	3.08%	3.08%	3.08%
(2) Size-based enterprise tax rate:					
(a) Capital-based	0.20%	0.20%	0.20%	0.20%	0.20%
(b) Additional value-based					
Fukushima Prefecture (福島県)	0.48%	0.48%	0.48%	0.48%	0.48%
Tokyo (東京都)	0.504%	0.504%	0.504%	0.504%	0.504%
Average:	0.492%	0.492%	0.492%	0.492%	0.492%
(3) Special local corporate tax rate:	4.292%	4.292%	4.292%	4.292%	4.292%
Effective statutory tax rate	**40.2%**	**37.6%**	**37.6%**	**37.6%**	**35.2%**

The formulas for calculating each type of taxes are:

1. **Corporate tax** = (Taxable income x Corporate tax rate) + Accumulated earnings tax - income tax credit (Note i)

2. **Temporary restoration corporate surtax** = (Taxable income x Corporate tax rate) x Restoration surtax rate

3. **Inhabitants tax** = (Corporate tax + income tax credit) x Inhabitants tax rate + Inhabitants tax on per capital basis (Note ii, v)

4. **Enterprise tax** is calculated as the sum of the followings:

   (1) Profit-based tax = Taxable income x Profit-based tax rate (Note v)

   (2) Size-based enterprise tax

   (a) Capital based: (Capital + Capital surplus) x Capital-based tax rate

   (b) Additional value based: (Value added expenses + Taxable income) x Additional value-based tax rate (Note iii, v)

   (3) Special local corporate tax = Taxable income x Special local corporate tax rate (Note iv)

5. **Effective statutory tax rate** is calculated as:

$$\frac{\text{Corporate tax rate x [(1+ Restoration corporation surtax) + Inhabitants tax rate] + Enterprise tax rate}}{\text{1+ enterprise tax rate}}$$

Notes:

(i) Accumulated earnings tax **=** Taxable undistributed current earnings x progressive accumulated earnings tax rates as follow:

a. First ¥ 30 million 10% per annum

b. Next ¥ 70 million 15% per annum

c. Over ¥100 million 20% per annum

(ii) Inhabitants tax on per capital basis is determined by the local government by the factors of paid-in capital and the number of employees

(iii) Value added expenses include labour costs, net interest payment and net rental payment

(iv) Special local corporate tax rate = profit based-rate x 148%

(v) Calculated using average rates of Fukushima Prefecture (福島県) and Tokyo (東京都)

Our income tax expenses were ¥2,978 million, ¥2,720 million, ¥2,310 million, ¥1,060 million and ¥690 million for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. Our effective tax rates were 47.2%, 41.9%, 38.4%, 39.5% and 42.4% for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014. We did not have any dispute with all the relevant tax authorities in the Track Record Period and we have paid all tax in accordance with all relevant laws and regulations. See Note 10 of Section II to the Accountant's Report set forth in Appendix I for more information.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 September 2014 compared with six months ended 30 September 2013

Gross pay-ins

Our gross pay-ins decreased by ¥29,685 million, or 24.6%, from ¥120,674 million for the six months ended 30 September 2013 to ¥90,989 million for the six months ended 30 September 2014. The table below shows changes in gross pay-ins and machine utilisation in our halls:

	Six months ended 30 September		Difference	%
	2013	2014	2013 vs 2014	
	(¥ in millions, except for percentages)			
Gross pay-ins				
Suburban	111,650	84,175	*(27,475)*	*-24.6%*
Urban	9,024	6,814	*(2,210)*	*-24.5%*
	120,674	90,989	*(29,685)*	*-24.6%*
Average gross pay-ins per hall				
Suburban	2,538	1,913	*(625)*	*-24.6%*
Urban	1,003	757	*(246)*	*-24.5%*
Overall	**2,277**	**1,717**	***(560)***	***-24.6%***
Machine utilisation				
Pachinko machines				
High playing cost	30.0	20.9	*-9.1%*	*N/A*
Low playing cost	37.8	33.7	*-4.1%*	*N/A*
Overall	**34.5**	**27.5**	***-7.0%***	***N/A***
Pachislot machines				
High playing cost	28.0	22.7	*-5.3%*	*N/A*
Low playing cost	31.4	23.0	*-8.4%*	*N/A*
Overall	**29.2**	**22.8**	***-6.4%***	***N/A***

The decrease in gross pay-ins in our halls was mainly due to decreases in player traffic, as a result of (i) the increase in consumption tax from 5% to 8% on 1 April 2014, which had a negative impact on consumer spending in general and (ii) our new policy of imposing mark-ups ranging from 4% to 20% (with an average of around 10%) on G prize redemption. The intention of imposing G-prize mark-up was to raise our revenue (by reducing our gross payouts) to mitigate the adverse effect from the increase in consumption tax from 5% to 8% on our profitability. This new approach increased the revenue margin of our halls but at the same time discouraged those players who sought higher payouts from playing at our halls. Relating to this, we also witnessed a significant drop in the utilisation rate of our machines during the period.

Gross payouts

Our gross payouts decreased by ¥28,884 million, or 27.6%, from ¥104,682 million for the six months ended 30 September 2013 to ¥75,798 million for the six months ended 30 September 2014. The table below shows changes in gross payouts in suburban and urban halls:

	Six months ended 30 September		Difference	%
	2013	2014	2013 vs 2014	
	(¥ in millions, except for percentages)			
Gross payouts				
Suburban	96,924	70,207	*(26,717)*	*-27.6*
Urban	7,758	5,591	*(2,167)*	*-27.9*
	104,682	**75,798**	**(28,884)**	**-27.6**
Average gross payouts per hall				
Suburban	2,203	1,596	*(607)*	*-27.6*
Urban	862	621	*(241)*	*-28.0*
Overall	**1,975**	**1,430**	***545***	***-27.6***

The decrease in gross payouts in the period was mainly due to (i) a decrease in the player traffic, as reflected in drop in gross pay-ins and utilisations in our machines as a result of incorporating G-prize mark-ups on prize redemption from April 2014 onwards as mention above.

Revenue and revenue margin

Revenue decreased by ¥857 million, or 5.2%, from ¥16,429 million for the six months ended 30 September 2013 to ¥15,572 million for the six months ended 30 September 2014. The table below shows changes in revenue and revenue margin in the period:

	Six months ended 30 September		Difference	%
	2013	2014	2013 vs 2014	
	(¥ in millions, except for percentages)			
Revenue from pachinko and pachislot business				
Suburban	14,727	13,968	*(759)*	*-5.2*
Urban	1,265	1,223	*(42)*	*-3.3*
Sub-total	15,992	15,191	*(801)*	*-5.0*
Vending machine income	362	301	*(61)*	*-16.9*
Revenue from pachinko and pachislot hall operations	16,354	15,492	*(862)*	*-5.3*
Revenue from hotel operations	75	80	*5*	*6.7*
Total revenue	**16,429**	**15,572**	***(857)***	***-5.2***
Revenue margin of pachinko and pachislot business				
Suburban	13.2%	16.6%	*3.4%*	*N/A*
Urban	14.0%	17.9%	*3.9%*	*N/A*
Overall	**13.3%**	**16.7%**	***3.4%***	***N/A***

Revenue from and revenue margin of pachinko and pachislot business

Revenue from pachinko and pachislot hall operations declined by ¥801 million, or 5.0%, from ¥15,992 million for the six months ended 30 September 2013 to ¥15,191 million for the six months ended 30 September 2014. As a result of imposing G-prize mark-ups on prize redemption from 1 April onwards as mentioned above, our revenue margin rose from 13.3% to 16.7%, which helped lessen the drop in revenue from pachinko and pachislot hall operations to only 5.0%, despite the fact that our gross pay-ins decreased by 24.6% during the period. Together with the decrease in vending machine income resulted from fall in hall traffic, we recorded a decrease in our overall revenue of 5.2% during the period.

Other income

Our other income increased by ¥619 million, or 340%, from ¥182 million for the six months ended 30 September 2013 to ¥801 million for the six months ended 30 September 2014. The increase was mainly attributable to the increase in compensation, subsidies and recovery from insurance companies by ¥588 million, or 57.8 times, from ¥10 million for the six months ended 30 September 2013 to ¥598 million for the six months ended 30 September 2014, which included a receipt of compensation of ¥590 million from Tokyo Electric Power Company for the loss arising from damages of our hall properties and loss of suspended operation sustained from the Great East Japan Earthquake on 11 March 2011.

Other losses, net

Our other losses, net decreased by ¥56 million, or 69.1%, from ¥81 million for the six months ended 30 September 2013 to ¥25 million for the six months ended 30 September 2014. The decrease in other losses was mainly due to (i) the decrease in loss on disposal of property, plant and equipment by ¥46 million; and (ii) the gain on fair value movement for interest rate swaps for ¥10 million for the six months ended 30 September 2014 compared to the loss of ¥3 million for the six months ended 30 September 2013, as the fair value of our fixed to floating interest rate swaps (i.e. we pay fixed rate and receive floating rate) held by us rose.

Hall operating expenses

Our hall operating expenses increased slightly in the six months ended 30 September 2014 as compared to that in the six months ended 30 September 2013. Our hall operating expenses amounted to ¥11,494 million and ¥11,644 million and represented 70.0% and 74.8% of our total revenue in the six months ended 30 September 2013 and 2014, respectively. The increase of our hall operating expenses in the six months ended 30 September 2014 was mainly attributable to the increase of pachinko and pachislot machine expenses as we continued to increase our hall size and to purchase new machines upon their new releases to ensure wide and up-to-date selection of machines was available to attract customers. Furthermore, we also incurred higher staff costs for hall staff in the six months ended 30 September 2014 as a result of our strategy to increase the number of staff per hall to improve our customer experience.

Administrative and other operating expenses

Our administrative and other operating expenses increased by ¥795 million, or 39.5%, from ¥2,013 million for the six months ended 30 September 2013 compared to ¥2,808 million for six months ended 30 September 2014. The increase was mainly driven by the increase of staff costs by ¥677 million, or 103.5%, from ¥654 million for the six months ended 30 September 2013 to ¥1,331 million for the six months ended 30 September 2014, which was primarily attributable to the one-off payment of ¥600 million to the retiring director of our Company, Mr. Tatsuo TANIGUCHI, as special benefit for his retirement. Such payment was entirely discretionary and was approved by the then board of Directors. Also included in the administrative and other operating expenses was the professional expenses incurred for Listing for ¥226 million.

Finance income and finance cost

Our net finance cost decreased by ¥71 million, or 20.9%, from ¥340 million for the six months ended 30 September 2013 to ¥269 million for the six months ended 30 September 2014. The decrease was driven by (i) increase in other interest income by ¥60 million, or 214.3%, from ¥28 million for the six months ended 30 September 2013 to ¥88 million for the six months ended 30 September 2014; and (ii) slight decrease in the finance cost by ¥11 million, or 3.0%, from ¥368 million for the six months ended 30 September 2013 to ¥357 million for the six months ended 30 September 2014.

The increase in other interest income was primarily attributable to the rise in interest income arising from the difference between the cash received from the cancellation of lease of hall properties in Nakano we acquired in the period, and its discounted booked value of the non-current portion of rental prepayments in relation thereto.

The decrease in finance cost was mainly due to the decrease in the interest component for our obligations under finance leases as the balance of outstanding finance lease liabilities decreased compared to that as at 30 September 2013.

Income tax expenses

Our income tax expenses decreased by ¥370 million, or 34.9%, from ¥1,060 million for the six months ended 30 September 2013 to ¥690 million for the six months ended 30 September 2014. Effective tax rate increased from 39.5% for the six months ended 30 September 2013 to 42.4% for the six months ended 30 September 2014.

The decrease in tax expenses was mainly due to the decrease in profit before tax in the six months ended 30 September 2014 compared to that for the six months ended 30 September 2013. The increase of effective tax rate was mainly attributable to the additional ¥111 million of tax expense arising from the unrecognised tax losses of ¥314 million in relation to interest expenses incurred by our Company in the period.

Profit for the period attributable to shareholders of the Company

As a result of the foregoing, our profit attributable to shareholders of the Company decreased by ¥686 million, or 42.3%, from ¥1,623 million for the six months ended 30 September 2013 to ¥937 million for the six months ended 30 September 2014. Our net profit margin decreased from 9.9% for the six months ended 30 September 2013 to 6.0% for the six months ended 30 September 2014. However, without the one-off retirement payment of ¥600 million made to Mr. Tatsuo TANIGUCHI and the professional fees of ¥226 million incurred for Listing, our net profit margin for this period would have been stable as compared to the previous period.

Year ended 31 March 2014 compared with year ended 31 March 2013

Gross pay-ins

Our gross pay-ins decreased slightly by ¥5,768 million, or 2.4%, from ¥242,217 million for the year ended 31 March 2013 to ¥236,449 million for the year ended 31 March 2014. The table below shows changes in gross pay-ins and machine utilisation in our halls:

	Year ended 31 March		Difference	%
	2013	2014	2013 vs 2014	
	(¥ in millions, except for percentages)			
Gross pay-ins				
Suburban	224,493	219,455	*(5,038)*	*-2.2*
Urban	17,724	16,994	*(730)*	*-4.1*
	242,217	**236,449**	***(5,768)***	***-2.4***
Average gross pay-ins per hall				
Suburban	5,221	4,988	*(233)*	*-4.5*
Urban	1,969	1,888	*(81)*	*-4.1*
Overall	**4,658**	**4,461**	***197***	***-4.2***
Machine utilisation				
Pachinko machines				
High playing cost	31.8%	27.9%	*-3.9%*	*N/A*
Low playing cost	37.3%	35.8%	*-1.5%*	*N/A*
Overall	**34.9%**	**32.2%**	***-2.7%***	***N/A***
Pachislot machines				
High playing cost	29.1%	27.9%	*-1.2%*	*N/A*
Low playing cost	30.2%	29.0%	*-1.2%*	*N/A*
Overall	**29.3%**	**28.4%**	***-0.9%***	***N/A***

On an average per hall basis, our gross pay-ins for our suburban hall and urban hall decreased by approximately 4.5% and 4.1%, respectively, during the year which was mainly attributable to the decrease in customer traffic and spending as evident in the drop in utilisation across all machines types. At the same time, we also opened a suburban hall in the year ended 31 March 2014, as a result our overall gross pay-ins only suffered a slight decline of 2.4%.

Gross payouts

Our gross payouts decreased slightly by ¥6,843 million, or 3.3%, from ¥210,298 million for the year ended 31 March 2013 to ¥203,455 million for the year ended 31 March 2014. The table below shows changes in gross payouts in suburban and urban halls:

	Year ended 31 March		Difference	%
	2013	2014	2013 vs 2014	
	(¥ in millions, except for percentages)			
Gross payouts				
Suburban	195,151	189,003	*(6,148)*	*-3.2*
Urban	15,147	14,452	*(695)*	*-4.6*
	210,298	**203,455**	***(6,843)***	***-3.3***
Average gross payouts per hall				
Suburban	4,538	4,296	*(242)*	*-5.3*
Urban	1,683	1,606	*(77)*	*-4.6*
Overall	**4,044**	**3,839**	***(205)***	***-5.1***

The decrease in gross payouts in the year was in line with the decrease in gross pay-ins in the year as a result of a decrease in utilisation of our machines.

Revenue and revenue margin

Revenue increased by ¥1,096 million, or 3.3%, from ¥32,751 million for the year ended 31 March 2013 to ¥33,847 million for the year ended 31 March 2014. The table below shows changes in revenue and revenue margin in the year:

	Year ended 31 March		Difference	%
	2013	2014	2013 vs 2014	
	(¥ in millions, except for percentages)			
Revenue from pachinko and pachislot business				
Suburban	29,342	30,452	*1,110*	*3.8*
Urban	2,577	2,542	*(35)*	*-1.4*
Sub-total	31,919	32,994	*1,075*	*3.4*
Vending machine income	748	704	*(44)*	*-5.9*
Revenue from pachinko and pachislot hall operations	32,667	33,698	*1,031*	*3.2*
Revenue from hotel operations	84	149	*65*	*77.4*
Total revenue	**32,751**	**33,847**	***1,096***	***3.3***
Revenue margin of pachinko and pachislot business				
Suburban	13.1%	13.9%	*0.8%*	*N/A*
Urban	14.5%	15.0%	*0.5%*	*N/A*
Overall	**13.2%**	**14.0%**	***0.8%***	***N/A***

Revenue and revenue margin of pachinko and pachislot business

Our revenue from pachinko and pachislot business increased by ¥1,075 million, or 3.4%, from ¥31,919 million for the year ended 30 September 2013 to ¥32,994 million for the year ended 31 March 2014. Despite the decrease in our gross pay-ins, we managed to record an increase in revenue by ¥1,096 million or 3.3%, of which ¥1,075 million was attributable to our hall operations during the period. We managed to raise the overall revenue margin of our halls from 13.2% for the year ended 31 March 2013 to 14.0% for the year ended 31 March 2014 with a lower payout ratio for our machines. This enabled us to achieve a 3.4% increase in revenue against a 2.4% drop in gross pay-ins.

Other income

Our other income decreased by ¥68 million, or 15.2%, from ¥446 million for the year ended 31 March 2013 to ¥378 million for the year ended 31 March 2014. The decrease was mainly due to a decrease in compensation, subsidies and recovery from insurance companies by ¥83 million, or 65.4%, from ¥127 million for the year ended 31 March 2013 resulting from the receipt of a subsidy of ¥58 million from the Fukushima Prefecture Government for the repair and maintenance of buildings damaged by the Great East Japan Earthquake to ¥44 million for the year ended 31 March 2014. The decrease was partially set off by an increase in dividend income by ¥38 million, or 131.0%, from ¥29 million for the year ended 31 March 2013 to ¥67 million for the year ended 31 March 2014 from an equity investment in a Hong Kong listed pachinko hall operator in Japan, which paid a total of ¥14.25 per share of dividend in the year ended 31 March 2014 compared to ¥5.75 per share in the year ended 31 March 2013.

Other losses, net

Our other losses increased by ¥77 million, or 3.9 times, from ¥20 million for the year ended 31 March 2013 to ¥97 million for the year ended 31 March 2014. The increase in other losses was mainly due to the increase in loss on disposal of property, plant and equipment by ¥77 million in light of minor improvement and maintenance work for our halls performed in the year ended 31 March 2014.

Hall operating expenses

Our hall operating expenses increased by ¥889 million, or 4.1%, from ¥21,909 million for the year ended 31 March 2013 to ¥22,798 million for the year ended 31 March 2014. The increase was mainly caused by (i) an increase in pachinko and pachislot machine expenses by ¥268 million, or 3.4%, primarily attributable to the purchase of new machines for the new hall opened in the year; (ii) an increase in utilities and consumables expenses by ¥211 million, or 8.9%, primarily attributable to the increased number of halls and also due to the colder climate in the winter seasons requiring more usage of heating system which led to increased electricity expenses; and (iii) an increase in depreciation and amortisation expenses by ¥176 million, or 9.1%, attributable to the increase in fixed asset as our Company opened a new hall in the year.

Administrative and other operating expenses

Our administrative and other operating expenses increased by ¥510 million, or 12.4%, from ¥4,126 million for the year ended 31 March 2013 to ¥4,636 million for year ended 31 March 2014. The increase was mainly caused by (i) an impairment loss on property, plant and equipment for ¥620 million, which was attributable to the impairment of three halls whose net present value calculated under the discounted cash flow model and based on their operating cash flow forecasts fell below their respective net book value, and (ii) an increase in advertising expenses by ¥131 million due to the increase in advertising effort in promoting our new and existing halls.

The increase in administrative and other operating expenses was partially off-set by the decrease in staff cost by ¥573 million, mainly due to the one-off payment of ¥600 million to the retiring director of our Company, Mr. Masataka TANIGUCHI, as special payment for his retirement in the prior year. Such payment was entirely discretionary and was approved by the board of Directors at that time.

Finance income and finance cost

Our net finance cost increased slightly by ¥29 million, or 4.4%, from ¥657 million for the year 31 March 2013 to ¥686 million for the year ended 31 March 2014. The increase was caused by a slight increase in the finance cost by ¥24 million, or 3.3%, from ¥720 million for the year ended 31 March 2013 to ¥744 million for the year ended 31 March 2014.

The increase in finance cost was mainly due to an increase in the total loan balances from ¥11,073 million as at 31 March 2013 to ¥12,379 million as at 31 March 2014. The average effective interest rate of our bank loans, syndicated loans and bonds we have issued for the year remained stable as compared to the prior year.

Income tax expenses

Our income tax expenses decreased by ¥410 million, or 15.1%, from ¥2,720 million for the year ended 31 March 2013 to ¥2,310 million for the year ended 31 March 2014. Effective tax rate decreased from 41.9% for the year ended 31 March 2013 to 38.4% for the year ended 31 March 2014.

The decrease in tax expenses was mainly due to a drop in profit before tax for the year as compared to that for the year ended 31 March 2013. The decrease of effective tax rate was mainly due to the utilisation of the tax losses of approximately ¥223 million brought over from a subsidiary, namely Jin Corporation, which was acquired in June 2012.

On 15 June 2012, we acquired the entire share capital of Jin Corporation, a company in which its main asset was the pachinko hall in Hanyu in Saitama Prefecture, with a consideration of ¥820 million. Before the acquisition, Jin corporation had an unutilised tax losses amounting to ¥223 million in its books. As the acquisition of the share capital of the Jin corporation was accounted for as an absorption type merger under the Japan Companies Act, the asset and liabilities of Jin Corporation, including its unutilised tax losses were merged with Niraku Corporation. Such unutilised tax loss was set off against the taxable profits of Niraku Corporation in the year ended 31 March 2014. See "History and Corporate Development — Corporate structure and development — Dissolved entities" for further details.

Profit for the year attributable to shareholders of the Company

As a result of the foregoing, our profit attributable to shareholders of the Company for the year remained stable as compared to the prior year. Our net profit margin decreased from 11.5% for the year ended 31 March 2013 to 10.9% for the year ended 31 March 2014, which was primarily due to an impairment loss on hall assets of ¥620 million made on three of our under-performing halls as included in the administrative and other operating expenses in the year.

Year ended 31 March 2013 compared with year ended 31 March 2012

Gross pay-ins

Our gross pay-ins increased by ¥17,429 million, or 7.7%, from ¥224,968 million for the year ended 31 March 2012 to ¥242,217 million for the year ended 31 March 2013. The table below shows changes in gross pay-ins and utilisation in our halls:

	Year ended 31 March		Difference	%
	2012	2013	2012 vs 2013	
	(¥ in millions, except for percentages)			
Gross pay-ins				
Suburban	206,437	224,493	18,056	8.7%
Urban	18,531	17,724	(807)	-4.4%
	224,968	**242,217**	***17,249***	***7.7%***
Average gross pay-ins per hall				
Suburban	4,915	5,221	306	6.2%
Urban	2,316	1,969	(347)	-15.0%
Overall	**4,499**	**4,658**	**159**	**3.5%**
Machine utilisation				
Pachinko machines				
High playing cost	34.4%	31.8%	(2.6)%	N/A
Low playing cost	39.6%	37.3%	(2.3)%	N/A
Overall	**37.3%**	**34.9%**	**(2.4)%**	**N/A**
Pachislot machines				
High playing cost	31.0%	29.1%	(1.9)%	N/A
Low playing cost	30.7%	30.2%	(0.5)%	N/A
Overall	**31.0%**	**29.3%**	**(1.7)%**	**N/A**

For the year ended 31 March 2013, our overall gross pay-ins from suburban halls registered a gain of 8.7% over the prior year as a result of (i) a strong rebound in player traffic in our halls located in the Fukushima prefecture after the Great East Japan Earthquake and (ii) the addition of an acquired hall through taking over of Jin Corporation. On an average gross pay-ins per hall basis, our suburban halls achieved an increase of 6.2% as compared to the prior year. Although the Great East Japan Earthquake initially forced the temporary closure of our halls in Fukushima, the incident in fact did not cause significant negative impact on our hall business. See "Business — Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake") for further details of the impact of the Great East Japan Earthquake on our operations. Indeed, according to our observation, after the earthquake, some members of the general public spent more time in pachinko halls. Further, partly attributable to the rebuilding efforts, there was a growth of working population in Fukushima, which brought about more spending in our halls.

For our urban halls, even though we opened a new hall in Tokyo in the year, the gross pay-ins suffered a drop of 4.4%. On an average gross pay-ins per hall basis, we recorded a larger decline of 15% over the prior period. Such a decrease was primarily due to the facts that (i) the newly opened hall in Tokyo did not generate sufficient player traffic in its first year of operation, and (ii) we recorded a higher revenue margin from 13.6% to 14.5% with a slightly lower payout ratio for machines in our halls, which discouraged some customers who were conscious of machine payouts from playing in our halls.

Gross payouts

Our gross payouts increased by ¥14,958 million, or 7.7%, from ¥195,340 million for the year ended 31 March 2012 to ¥210,298 million for the year ended 31 March 2013. The table below shows changes in gross payouts in suburban and urban halls:

	Year ended 31 March		Difference	%
	2012	2013	2012 vs 2013	
	(¥ in millions, except for percentages)			
Gross payouts				
Suburban	179,324	195,151	*15,827*	*8.8%*
Urban	16,016	15,147	*(869)*	*-5.4%*
	195,340	**210,298**	***14,958***	***7.7%***
Average gross payouts				
Suburban	4,270	4,538	*268*	*6.3%*
Urban	2,002	1,683	*(319)*	*-15.9%*
Overall	**3,907**	**4,044**	**137**	**3.5%**

The movement of gross payouts in both suburban and urban halls generally followed the trend of their respective gross pay-ins.

Revenue and revenue margin

Revenue increased by ¥2,399 million, or 7.9%, from ¥30,352 million for the year ended 31 March 2012 to ¥32,751 million for the year ended 31 March 2013. The table below shows changes in revenue and revenue margin in the year:

	Year ended 31 March		Difference	%
	2012	2013	2012 vs 2013	
	(¥ in millions, except for percentages)			
Revenue from pachinko and pachislot business				
Suburban	27,113	29,342	*2,229*	*8.2%*
Urban	2,515	2,577	*62*	*2.5%*
Sub-total	29,628	31,919	*2,291*	*7.7%*
Vending machine income	724	748	*24*	*3.3%*
Revenue from pachinko and pachislot hall operations	30,352	32,667	*2,315*	*7.6%*
Revenue from hotel operations	—	84	*84*	*N/A*
Total revenue	**30,352**	**32,751**	***2,399***	***7.9%***
Revenue margin of pachinko and pachislot business				
Suburban	13.1%	13.1%	*0.0%*	*N/A*
Urban	13.6%	14.5%	*0.9%*	*N/A*
Overall	**13.2%**	**13.2%**	***0.0%***	***N/A***

The increase in our revenue was mainly due to the improvement in our gross pay-ins amongst our suburban halls, as the revenue margin was maintained at a stable 13.2% during the year. For our urban halls, we were able to keep our revenue stable, despite a drop of 4.4% in the gross pay-ins during the year, with a slightly lower payout ratio in our halls.

Other income

Our other income decreased by ¥669 million, or 60%, from ¥1,115 million for the year ended 31 March 2012 to ¥446 million for the year ended 31 March 2013. The decrease was mainly attributable to the decrease in compensation, subsidies and recovery from insurance companies by ¥762 million, or 6.0 times, from ¥889 million for the year ended 31 March 2012 to ¥127 million for the year ended 31 March 2013, which was due to the one off recovery of ¥788 million from a insurance company for the fire incident in our hall located in Hiramise, Fukushima in the year ended 31 March 2012.

On 3 May 2011, one of our halls temporarily suspended its operations due to a fire accident. This fire accident caused significant damage to certain property, plant and equipment and inventories and the loss amounted to ¥468 million which was recognised in the year ended 31 March 2012. In addition, the fire accident also interrupted the operation of that hall. We had insurance policies which coverage included the damage and costs associated with property, plant and equipment and inventories and provide business interruption coverage, including lost profits. In the year ended 31 March 2012, insurance compensation amounting to ¥788 million was claimed and paid to us from the insurance companies.

Other losses, net

Our other losses decreased by ¥484 million, or 96.0%, from ¥504 million for the year ended 31 March 2012 to ¥20 million for the year ended 31 March 2013. The decrease in other losses in the year ended 31 March 2013 was mainly due to a loss of ¥468 million incurred in the fire incident in the year ended 31 March 2012, as discussed in the paragraph headed "Other income" above.

Hall operating expenses

Our hall operating expenses increased by ¥1,300 million, or 6.3%, from ¥20,609 million for the year ended 31 March 2012 to ¥21,909 million for the year ended 31 March 2013. Our hall operating expenses per hall increased by 2.2% from ¥412 million per hall in the year ended 31 March 2012 to ¥421 million per hall in the year ended 31 March 2013. The increase was mainly driven by (i) an increase in pachinko and pachislot machine expenses by ¥787 million, or 11.0%, primarily attributable to the purchase of new machines for the two new halls opened in the year; (ii) an increase in utilities and consumables expenses by ¥333 million, or 16.4%, primarily attributable to the increased number of halls; and (iii) an increase in depreciation and amortisation expenses by ¥93 million, or 5.0%, primarily attributable to the increase in buildings, leasehold improvements and equipment and tools accompanying the opening of two new halls in the year.

Administrative and other operating expenses

Our administrative and other operating expenses increased for ¥807 million, or 24.3%, from ¥3,319 million for the year ended 31 March 2012 compared to ¥4,126 million for year ended 31 March 2013. The increase was mainly due to (i) an increase in staff cost by ¥560 million, resulted from the one-off discretionary special payment of ¥600 million to the retiring director of our Company, Mr. Masataka TANIGUCHI, for his retirement in the year ended 31 March 2013 as discussed above; (ii) an increase in advertising expenses by ¥292 million in connection with the stronger advertising effort in promoting our new and existing halls; and (iii) an increase in recruitment expense by ¥198 million, mainly attributable to the promotional expenses incurred for the adoption of a new recruitment scheme in the year ended 31 March 2013 for recruiting university graduates to join our ranks.

Finance income and finance cost

Our net finance cost decreased by ¥71 million, or 9.8%, from ¥728 million for the year 31 March 2012 to ¥657 million for the year ended 31 March 2013. The decrease was caused by a decrease in the finance cost by ¥74 million, or 9.3%, from ¥794 million for the year ended 31 March 2012 to ¥720 million for the year ended 31 March 2013.

The decrease in finance cost was mainly due to (i) a decrease in the total loan balances from ¥12,229 million as at 31 March 2012 to ¥11,073 million as at 31 March 2013; and (ii) a decrease of average effective interest rate of our syndicated loans from 2.8% per annum for the year ended 31 March 2012 to 2.2% per annum for the year ended 31 March 2013.

Income tax expenses

Our income tax expenses decreased by ¥258 million, or 8.7%, from ¥2,978 million for the year ended 31 March 2012 to ¥2,720 million for the year ended 31 March 2013. Effective tax rate decreased from 47.2% for the year ended 31 March 2012 to 41.9% for the year ended 31 March 2013.

The decrease in tax expenses was mainly due to a decrease in tax rate in Japan. The national corporate income tax rate of Japan reduced from 30% to 25.5% from fiscal years beginning on or after 1 April 2012 as a result of 2011 Reform Amendment Tax Law promulgated on 2 December 2011. Taking into account other types of statutory tax payable by our Group, our effective statutory income tax rates decreased from 40.2% for the year ended 31 March 2012 to 37.6% for the year ended 31 March 2013.

Profit for the year/period attributable to shareholders of the Company

As a result of the foregoing, our profit attributable to shareholders of the Company increased by ¥436 million, or 13.1%, from ¥3,329 million for the year ended 31 March 2012 to ¥3,765 million the year ended 31 March 2013. Our net profit margin increased from 11.0% for the year ended 31 March 2012 to 11.5% for the year ended 31 March 2013, which was primarily attributable to a reduction in tax expenses resulting from the decrease in national corporate income tax rate in Japan from 30% to 25.5% from fiscal years beginning on or after 1 April 2012.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow and treasury management

Our principal sources of funds are cash generated from our operations, various short-term and long-term bank borrowings and lines of credit, and cash generated from our bond issues. We generally assess our liquidity based on these items. Our primary liquidity requirements are to finance working capital, fund the payment of interest and principal on our borrowings and bonds, and fund our capital expenditures and the growth and expansion of our operations. We have historically met our working capital and other liquidity requirements principally from cash generated by our operations, while we used proceeds from bank borrowings, syndicate loans and bond issues to finance our capital expenditures, hall investments and expansion of our operations. Going forward, we expect to continue our current approach of (i) relying principally on our internally-generated cash flows for our working capital and other liquidity requirements, and (ii) using the proceeds from the Global Offering and bank borrowings as well as bond issues as capital resources to finance our expansion plans. The amount and type of borrowings we may incur in the future depends on (i) the actual capital need, (ii) the cost of financing, (iii) the progress of implementation of our hall opening plan and (iv) our financial performance, among other factors, from time to time.

Cash flows

The table below shows a summary of our cash flows for the indicated periods:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
				(unaudited)	
Operating cash flows before movements in working capital	9,358	9,066	9,604	4,196	2,905
Changes in working capital usage	4,077	3,202	3	(635)	1,622
Interest paid	(707)	(641)	(692)	(344)	(331)
Income tax paid	(1,264)	(3,943)	(2,635)	(1,293)	(1,032)
Net cash generated from operating activities	11,464	7,684	6,280	1,924	3,164
Net cash used in investing activities	(695)	(2,902)	(1,390)	(962)	(734)
Net cash (used in)/generated from financing activities	(3,815)	(10,458)	(3,390)	80	(837)
Net increase/(decrease) in cash and cash equivalents	6,954	(5,676)	1,500	1,042	1,593
Cash and cash equivalents at the beginning of the year/period	5,631	12,585	6,909	6,909	8,409
Cash and cash equivalents at the end of the year/period, represented by bank balances and cash	**12,585**	**6,909**	**8,409**	**7,951**	**10,002**

Operating Activities

In the six months ended 30 September 2014, net cash generated from operating activities was ¥3,164 million, which comprised operating cash flows before working capital changes of ¥2,905 million, decrease in working capital usage of ¥1,622 million, interest paid of ¥331 million and income tax paid of ¥1,032 million. The change in working capital mainly reflects (i) an increase in accruals, provisions and other payables of ¥1,564 million; (ii) an increase in prepayment, deposits and other receivables of ¥857 million; and (iii) a decrease in inventory of ¥591 million mainly attributable to the purchase of new machines using finance lease. The increase in accruals, provisions and other payables was mainly due to an increase in payables for retirement payment of ¥600 million to Mr. Tatsuo TANIGUCHI (谷口龍雄) and an increase in accrued expenses by ¥546 million for the purchase of pachinko machines. The increase in prepayment, deposits and other receivables was mainly due to an addition of rental deposits for the new halls due to open in November and December 2014.

In the year ended 31 March 2014, net cash generated from operating activities was ¥6,280 million, comprising an operating cash flow before working capital change in the amount of ¥9,604 million, a decrease in working capital usage of ¥3 million, an interest payment of ¥692 million and an income tax payment of ¥2,635 million. The change in working capital mainly reflected (i) a movement of inventory of ¥2,535 million, mainly attributable to the purchase of machines using finance lease; (ii) a decrease in accrual, provisions and other payables of ¥1,222 million; and (iii) an increase in prepayments, deposits and other receivables (mainly including rental and other deposits and rental prepayments) for ¥1,151 million. The decrease in accrual, provisions and other payables was primarily due to (i) a decrease in accrued expenses as there was an accrual of ¥600 million for the retirement payment for Mr. Masataka TANIGUCHI (谷口晶貴) in the year ended 31 March 2013; (ii) a decrease in provisions for utilities and consumables for ¥287 million; and (iii) a decrease in provisions for unutilised balls for ¥145 million. The increase in prepayments, deposits and other receivables was mainly attributable to an increase in prepayment for G-prizes as at 31 March 2014. To maintain a sufficient level of G-prize at our halls, we usually order from our G-prize wholesaler daily to replenish our stock of G-prize to a pre-set level, usually representing the G prize redemption volume for around two days. As 31 March 2014 fell on a Monday with relatively low player traffic whilst 31 March 2013 fell on a Sunday, there was less customers exchanging G-prize on 31 March 2014 leading to a larger amount of G-prize kept in our hall that day. The increase was also due to an increase in rental prepayments by ¥244 million due to recognition of construction fund prepayment for the hall properties for our pachinko hall at Hanyu upon the merger with Jin Corporation in the year.

In the year ended 31 March 2013, net cash generated from operating activities was ¥7,684 million, which was a result of an operating cash flow before working capital change in the amount of ¥9,066 million, a decrease in working capital usage of ¥3,202 million, an interest payment of ¥641 million and an income tax payment of ¥3,943 million. The change in working capital mainly reflected a movement in inventory of ¥3,081 million, which was primarily attributable to the purchase of new pachinko and pachislot machines using finance lease.

In the year ended 31 March 2012, net cash generated from operating activities was ¥11,464 million, which was a result of an operating cash flow before working capital change in the amount of ¥9,358 million, a decrease in working capital usage of ¥4,077 million, an interest payment of ¥707 million and an income tax payment of ¥1,264 million. The change in working capital mainly reflected (i) a movement in inventory of ¥2,365 million mainly attributed to the purchase of new machines using finance lease, (ii) an increase in accruals, provisions and other payables of ¥934 million, and (iii) a decrease in prepayment, deposits and other receivables of ¥561 million. The increase in accruals, provisions and other payables was mainly due to an increase in accrued hall construction cost, IT system payables and machine purchasing expenses compared to that as at 31 March 2011 in relation to the cost of opening of the two new halls in the year ended 31 March 2012. The decrease in prepayment, deposits and other receivables was mainly attributable to a decrease in prepayment for G-prizes on 31 March 2012, as there were more player traffic on 31 March 2012, which fell on a Saturday, compared with that of 31 March 2011, which fell on a Thursday.

Investing Activities

In the six months ended 30 September 2014, net cash used in investing activities amounted to ¥734 million. Our net cash used in investing activities primarily resulted from (i) net cash used in purchase and sale of property, plant and equipment and investment properties of ¥819 million; (ii) net cash inflow from dividend income and from movements of financial assets of ¥73 million; (iii) net cash inflow from movements in long-term and pledged bank deposits of ¥32 million; and (iv) net cash outflow for acquisition of intangible assets for ¥20 million. Net cash used in the purchase and sale of property, plant and equipment and investment properties mainly represented the additions in construction in progress for our new halls opened in November 2014.

In the year ended 31 March 2014, net cash used in investing activities amounted to ¥1,390 million. Our net cash used in investing activities primarily resulted from (i) net cash used in purchase and sale of property, plant and equipment and investment properties of ¥1,314 million; (ii) net cash used in investments of financial assets of ¥145 million; (iii) net cash inflow from movements in long-term and pledged bank deposits of ¥35 million; and (iv) net cash inflow from other items of ¥34 million. Net cash used in purchase of property, plant and equipment mainly represented the additions in buildings for our new hall opened in the period.

In the year ended 31 March 2013, net cash used in investing activities amounted to ¥2,902 million. Our net cash used in investing activities primarily resulted from (i) net cash used in purchase and sale of property, plant and equipment of ¥1,042 million; (ii) net cash outflow from investments of financial assets of ¥633 million; (iii) net cash outflow from movements in long-term and pledged bank deposits of ¥925 million; (iv) cash used in the acquisition of Jin corporation for ¥820 million; (v) net cash inflow from decrease in amounts due from related parties of ¥435 million and (vi) net cash inflow from movements in other items of ¥83 million. Cash used in purchase and sale of property, plant and equipment and investment properties mainly represented the increase in buildings and lands for the two new halls opened in the year.

In the year ended 31 March 2012, net cash used in investing activities amounted to ¥695 million. Our net cash used in investing activities primarily resulted from (i) net cash used in purchase and sale of property, plant and equipment and investment properties of ¥702 million; (ii) net cash inflow from investments of financial assets of ¥5 million; (iii) net cash outflow from movements in long-term and pledged bank deposits of ¥29 million; and (iv) net cash inflow from other items of ¥31 million. Net cash used in purchase and sale of property, plant and equipment and investment properties mainly represented the additions of tools and equipments and the Nomurasyoken Building which is one of our investment properties.

Financing Activities

In the six months ended 30 September 2014, net cash used in financing activities amounted to ¥837 million. Our cash used in financing activities primarily resulted from (i) net cash inflow from borrowings and loans of ¥1,636 million; (ii) repayment of obligations under finance leases of ¥776 million; (iii) cash outflow from distribution to shareholders amounted to ¥988 million; (iv) cash outflow from purchase of shares of ¥526 million; and (v) cash outflow from payment of dividend of ¥183 million in the period. The new proceeds from borrowings and loans represented the net proceeds from new loans made to finance our expansion plans and for working capital purpose. The cash distribution to shareholders represented distribution of entire holdings of shares of NI to our controlling shareholder with carrying value of ¥988 million. Cash used in purchase of shares represented the repurchase of shares of companies in our Group from their then shareholders for ¥526 million as part of the reorganisation. See Note 25(e) to the Accountant's Report in Appendix I for further details.

In the year ended 31 March 2014, net cash used in financing activities amounted to ¥3,390 million. Our cash used in financing activities primarily resulted from (i) net cash inflow from borrowings and loans of ¥1,254 million; (ii) repayment of obligations under finance leases of ¥4,461 million; and (iii) cash outflow from dividend payment of ¥183 million in the year.

In the year ended 31 March 2013, net cash used in financing activities amounted to ¥10,458 million. Our cash used in financing activities primarily resulted from (i) net outflow of cash from borrowings and loans of ¥1,235 million; (ii) repayment of obligations under finance leases of ¥4,393 million; (iii) cash outflow from purchase of shares of ¥4,575 million; (iv) cash outflow from repayment of ¥145 million of balances due to a shareholder and related company and (v) cash outflow from dividend payment of ¥110 million in the year. Cash used in purchase of shares represented the repurchase of shares of Niraku Corporation by itself and purchase of Niraku Corporation's shares from the then shareholders for ¥1,131 million and ¥3,432 million respectively. Cash outflow from repayment of balances due to shareholder represented the repayment of principal and interest portion of a loan from Mrs. Kyoko TANIGUCHI (谷口京子) and KAWASHIMA Co., Ltd in the year.

In the year ended 31 March 2012, net cash used in financing activities amounted to ¥3,815 million. Our cash used in financing activities primarily resulted from (i) net cash inflow from borrowings and loans of ¥281 million; (ii) repayment of obligations under finance leases of ¥4,086 million; (iii) cash inflow from collection of ¥100 million of balances from shareholder; and (iv) cash outflow from payment of dividend of ¥110 million paid in the year.

CAPITAL EXPENDITURE

Historical Capital Expenditure

Our capital expenditure was mainly comprised of expenditure for (i) the purchase of property, plant and equipment mainly used for construction of buildings, or (ii) the acquisition of equipment and tools for the expansion and maintenance of our pachinko and pachislot hall operations. We also incurred capital expenditure for the acquisition for an investment property in year ended 31 March 2012. The table below shows a breakdown of the uses of our historical capital expenditure for the indicated periods:

	For the year ended 31 March			For the six months ended 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Property, plant and equipment	2,065	3,457	5,049	1,219
Investment properties	519	—	21	—
Others	1	15	34	20
Total capital expenditure	**2,585**	**3,472**	**5,104**	**1,239**

Estimated Future Capital Expenditure

We expect to incur approximately ¥2,124 million and ¥3,019 million of capital expenditure for the six months ending 31 March 2015 and for the year ending 31 March 2016, respectively, for our business expansion. We expect to fund the capital expenditure for the six months ending 31 March 2015 and for the year ending 31 March 2016 with proceeds from the Global Offering, cash flows from operations and debt financing which may include drawing new short or long term loans or issuing debt instruments. See "— Liquidity and Capital Resources — Cash flow and treasury management" in this section above further details.

The table below shows a breakdown of the uses of our estimated capital expenditure for the indicated periods:

	For the six months ending 31 March	For the year ending 31 March
	2015	2016
	(¥, in millions)	
Property, plant and equipment	2,124	3,019

CONTRACTUAL COMMITMENTS

Operating lease commitments

During the Track Record Period, we leased a number of properties (as lessee) under operating lease to use as our office premises and pachinko hall. The table below sets forth our minimum lease payments payable under non-cancellable operating leases as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
No later than one year	595	611	737	848
Later than one year and no later than five years	2,378	2,445	3,089	3,412
Over five years	4,239	3,714	5,247	5,424
	7,212	**6,770**	**9,073**	**9,684**

Capital commitments

In 2014, we entered into a contract for hall construction. The table below sets forth the capital commitments contracted for but not provided in the financial statement under that hall construction contract as at 30 September 2014:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Capital commitments contracted for but not provided in the financial statements				
Hall construction	—	407	—	866

INDEBTEDNESS

As at 31 January 2015, being the latest date for the purpose of liquidity disclosure in this Prospectus, bank borrowings of ¥10,716 million were secured by land and buildings, investment properties, bank deposits, deposits and other receivable and other long-term assets held by our Company and corporate guarantees provided by Niraku Corporation and Nexia. Except for the bank borrowing of ¥2,765 million, ¥4,723 million and ¥3,107 million which was repayable between 1 and 2 years, between 2 and 5 years and over 5 years, respectively, and long term obligations under finance lease of ¥4,578 million, all the remaining indebtedness was repayable within the coming 12 months.

The table below shows the breakdown of our interest-bearing borrowings, including bank loans, syndicated loans, bond issues and amount due to related parties and company as at the indicated dates:

	As at 31 March			As at 30 September	As at 31 January
	2012	2013	2014	2014	2015
	(¥, in millions)				
Non-current Liabilities					
Borrowings					
Bank loans	2,149	2,617	3,469	3,627	4,196
Syndicated loans	2,854	5,155	5,606	5,772	5,833
Bonds	23	219	195	569	566
Subtotal	5,026	7,991	9,270	9,968	10,595
Obligations under finance leases	4,135	4,158	5,366	4,090	4,578
Amount due to a related party	45	—	—	—	—
	9,206	**12,149**	**14,636**	**14,058**	**15,173**
Current Liabilities					
Borrowings					
Bank loans	1,689	2,034	2,233	3,048	3,321
Syndicated loans	5,319	1,001	851	903	983
Bonds	195	47	25	122	123
Subtotal	7,203	3,082	3,109	4,073	4,427
Obligations under finance leases	2,392	2,394	2,253	2,808	2,073
Amount due to a related party	100	—	—	—	—
Amount due to a related company	—	—	—	24	—
	9,695	**5,476**	**5,362**	**6,905**	**6,500**
Total indebtedness	**18,901**	**17,625**	**19,998**	**20,963**	**21,673**

Due to the capital needed for construction of new halls for our expansion, we have relied on bank borrowings, syndicated loans and bond issues to fund a substantial portion of our capital requirements, and we may also finance portions of our capital expenditure with bank borrowings in the foreseeable future. As at 31 March 2012, 2013 and 2014, 30 September 2014, and 31 January 2015, our total indebtedness amounted to ¥18,901 million, ¥17,625 million, ¥19,998 million, ¥20,963 million and ¥21,673 million, respectively. The increase in balance of indebtedness as at 31 January 2015 was mainly due to bank borrowings drawn to finance the opening of our halls in November and December 2014.

Most of our loans borrowed in the Track Record Period charged floating interest rate based on a benchmark interest rate (ex. TIBOR or LIBOR) plus a margin. As a measure to manage our interest rate risk, we entered into 16 interest rate swap transactions with notional principal and maturity which substantially matched with the 16 bank loans as detailed in "— Analysis of Certain Consolidated Statement of Financial Position Items — Derivative Financial Liability" in this section. See "— Analysis of Certain Consolidated Statement of Financial Positions Items — Financial assets and liabilities at fair value — Derivative financial liability" in this section for further details on the interest rate swaps.

The following sets out the effective interest rate (taking into account the upfront arrangement fees) of our loans in the Track Record Period.

	As at 31 March			As at 30 September
	2012	2013	2014	2014
Bank loans	2.9%	2.8%	2.7%	2.7%
Syndicated loans	2.8%	2.2%	2.3%	2.3%
Bonds	2.1%	1.5%	1.4%	2.0%

Our indebtedness are secured by the following assets as at the indicated periods in the table below:

	As at 31 March			As at 30 September	As at 31 January(Note)
	2012	2013	2014	2014	2015
	(¥, in millions)				
Property, plant and equipment	10,405	10,439	7,902	8,975	10,252
Investment properties	683	669	676	669	665
Bank deposits	200	1,100	1,100	1,100	1,100
Deposits and other receivables	185	180	339	335	333
Other long term assets	28	35	37	67	68
	11,501	**12,423**	**10,054**	**11,146**	**12,418**

Note: Date of our indebtedness statement.

As at 31 March 2012, 2013 and 2014, 30 September 2014 and 31 January 2015, the assets with carrying amounts of ¥11,501 million, ¥12,423 million, ¥10,054 million, ¥11,146 million and ¥12,418 million, respectively, including property, plant and equipment, investment properties, bank deposits, deposits and other receivables and other assets, were pledged to secure our bank loans and syndicated loans. Our bank loans, syndicated loans and bonds as at 31 January 2015 have certain financial covenants that we have to comply with. The table below sets out the details of major covenants for the companies in our Group:

	Covenant	Fulfilment of covenants as at 31 March 2014[note]	Breach of covenants in the Track Record Period
Niraku Corporation . .	**(i) Net Asset**		
	Net asset as at subsequent year ends must not be lower than 80% of that as at:		
	31 March 2007 31 March 2012 31 March 2013 31 March 2014	119%	N/A
	(ii) Net loss Must not have net loss for two consecutive years	Net profit in the years ended 31 March 2013 and 31 March 2014	N/A
	(iii) Net equity		
	Net equity as at subsequent year ends must not be lower than 75% of that as at 31 March 2013	119%	N/A
	(iv) Capital adequacy ratio (total equity ÷ total assets)	59%	N/A
	Must be higher than 5% as at subsequent year ends		

	Covenant	Fulfilment of covenants as at 31 March 2014[note]	Breach of covenants in the Track Record Period
Nexia	**(i) Net Asset** Positive net asset at subsequent year ends	¥538million	N/A
	(ii) Net loss Must not have net loss for two consecutive years	Net profit in the years ended 31 March 2013 and 2014	N/A
NGCH	**(i) Net Asset** Net asset at subsequent year ends must not be lower than 80% of that as at 31 March 2013	153,997%	N/A
	(ii) Net loss Must not have net loss for two consecutive years	Net profit in the year ended 31 March 2014	N/A
Group basis	**(i) Consolidated Net Asset** The consolidated net asset as at subsequent year ends must not be lower than 80% of that as at 31 March 2014	104%	N/A

Note: Representing the latest financial year end for the purpose of determining compliance with covenants in loans and borrowings.

Based on our financial performance in the Track Record Period, we do not consider abovementioned covenants will materially restrict our ability to borrow new loans in the future.

Certain of our loans and borrowings as at 31 January 2015 were guaranteed by our Directors and shareholders. Such guarantees will be released or replaced by guarantees by companies in our Group before Listing.

Borrowings — non-current portion

The balances represent non-current portion (balances over one year) of our long term borrowings. We generally incur long-term bank and syndicated loans to fund the construction and other capital expenditure of new halls and provide general working capital. We also issued bonds from time to time to finance our capital needs. The non-current portion of our long term borrowings amounted to ¥5,026 million, ¥7,991 million, ¥9,270 million, ¥9,968 million and ¥10,595 million as at 31 March 2012, 2013 and 2014, 30 September 2014 and 31 January 2015, respectively.

The table below shows the maturity profile of the non-current portion of our long-term bank borrowings as at the indicated dates:

	As at 31 March			As at 30 September	As at 31 January
	2012	2013	2014	2014	2015
			(¥, in millions)		
Between 1 and 2 years . .	1,765	1,479	2,278	2,761	2,765
Between 2 and 5 years . .	1,357	2,936	3,884	4,238	4,723
Over 5 years	1,904	3,576	3,108	2,969	3,107
	5,026	**7,991**	**9,270**	**9,968**	**10,595**

Included in our long-term borrowings are bond issues consisting of our outstanding corporate bonds issued from 2004 to 2014 in 9 batches, all of which are unlisted. Our outstanding bonds balance amounted to ¥218 million, ¥266 million, ¥220 million and ¥691 million as at 31 March 2012, 2013 and 2014 and 30 September 2014, respectively. The table below shows certain details of these corporate bonds which are unsecured and not guaranteed:

Issue date	Principal amount	Outstanding principle amount (As of 31 January 2015)	Annual interest rate	Maturity date
	¥ million	¥ million	(%)	
30 March 2004	250	—	1.20	28 February 2014
13 July 2006.	300	—	1.61	12 July 2012
28 December 2009.	200	—	0.70	28 December 2011
18 June 2010	200	—	0.63	28 June 2012
28 December 2010.	200	—	0.62	28 December 2012
28 August 2012	160	160	0.70	26 August 2022
30 November 2012.	100	100	0.60	30 November 2022
28 August 2014	400	400	0.31	26 August 2016
19 September 2014	100	100	1.00	19 September 2019

Borrowings — current portion

The balances represent short term borrowings (maturity less than one year) and the current portion (less than one year) of our long term borrowings. We take out short-term bank loans generally to fund our general working capital. Our short-term bank borrowings and current portion of long term borrowings amounted to ¥7,203 million, ¥3,082 million, ¥3,109 million, ¥4,073 million and ¥4,427 million as at 31 March 2012, 2013 and 2014, 30 September 2014 and 31 January 2015, respectively.

Obligations under finance lease

Obligation under finance lease is a major component of our liabilities and is principally comprised of a stream of cash flows payable to our landlord or to the vehicle owners in accordance with the property lease agreement or vehicle lease agreements entered with us after netting off the future interest expenses during the remaining lease term of the relevant property lease agreement or vehicle lease agreement. The balance also included finance lease liabilities for the purchase of pachinko and pachislot machines. Future interest expenses are the difference between the present value and the gross value for the finance lease payables. The table below shows the components of our finance lease liabilities as at 31 March 2012, 2013 and 2014 and 30 September 2014:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Gross finance lease liabilities - minimum lease payments				
No later than 1 year	2,635	2,624	2,536	3,065
Later than 1 year and no later than 2 years	1,206	1,331	1,521	1,357
Later than 2 year and no later than 5 years	2,185	2,142	2,383	1,835
Later than 5 years	1,340	1,192	2,449	1,754
	7,366	7,289	8,889	8,011
Future finance charges on finance leases	(839)	(737)	(1,270)	(1,113)
Present value of finance lease liabilities	**6,527**	**6,552**	**7,619**	**6,898**
In which comprises of:				
Current portion of finance lease liabilities	**2,392**	**2,394**	**2,253**	**2,808**
Non-current portion of finance lease liabilities	**4,135**	**4,158**	**5,366**	**4,090**

Our obligations under finance lease mainly include the leases of hall properties for our pachinko halls which accounted for more than 90% of the total finance lease liabilities as at each of the period/year end in the Track Record Period. As at 31 March 2012, 2013 and 2014 and 30 September 2014, there were eight, nine, ten, and ten pachinko hall properties of which the property lease agreements were classified as finance lease.

The effective interest rate of the finance lease ranged from 4.56% to 4.86% per annum as at 31 March 2012, 2013 and 2014 and as at 30 September 2014. All of these leases are on a fixed repayment term basis and do not have any contingent rental payments arrangements during the Track Record Period.

Contingent Liabilities

We did not have any contingent liabilities as at 31 January 2015.

Save as disclosed in this Prospectus, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as of 31 January 2015, being our indebtedness statement date. Details of material changes to our Group's indebtedness subsequent to the Track Record Period and up to the Latest Practicable Date are set out under the paragraph headed "Financial information — Net current liabilities". Save for the information as disclosed under the paragraph headed "Financial information — Net current liabilities", our Directors confirm that, as at the Latest Practicable Date, there had been no material change in our Group's indebtedness since 31 January 2015.

OFF BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, we did not have any off balance sheet commitments and arrangements.

NET CURRENT ASSETS

The table below shows our current assets and current liabilities as at the date indicated:

	As at 31 March			As at 30 September	As at 31 January
	2012	2013	2014	2014	2015
			(¥, in millions)		
					(unaudited)
ASSETS					
Current assets					
Inventories	412	86	21	40	44
Trade receivables	60	64	54	52	57
Prepayments, deposits and other receivables	989	1,035	1,546	1,487	1,343
Amounts due from Directors	10	12	12	—	—
Financial assets at fair value through profit or loss	34	—	100	—	100
Pledged bank deposits and bank deposits with maturity over 3 months	758	1,754	1,706	1,639	1,940
Cash and cash equivalents	12,585	6,909	8,409	10,002	9,000
Current income tax recoverable	—	—	121	370	491
Total current assets	14,848	9,860	11,969	13,590	12,975
Current liabilities					
Trade payables	347	382	201	145	272
Borrowings	7,203	3,082	3,109	4,073	4,427
Obligations under finance leases	2,392	2,394	2,253	2,808	2,073
Amount due to a related party	100	—	—	—	—
Amount due to a related company	—	—	—	24	—
Accruals, provisions and other payables	3,577	3,584	2,344	4,325	3,803
Derivative financial instrument	18	18	15	15	15
Current income tax liabilities	2,375	1,277	1,029	1,235	670
Total current liabilities	16,012	10,737	8,951	12,625	11,260
Net current (liabilities)/assets	**(1,164)**	**(877)**	**3,018**	**965**	**1,715**

We incurred significant capital expenditure in the expansion of our business. Our net current liabilities as at 31 March 2012 and 31 March 2013 primarily reflected (i) the current portion of our obligations under finance leases of properties for our pachinko and pachislot hall operations, and (ii) our short-term borrowings and the current portion of our long-term borrowings, primarily to fund our construction and acquisition of pachinko halls. Our working capital positions improved during the Track Record Period and we were in net current asset position as at 31 March 2014, 30 September 2014 and 31 January 2015 mainly because we chose to use long term bank loans with tenure of over three years instead of short term borrowings to finance our hall investments during the Track Record Period.

We recorded net current liabilities of ¥1,164 million, ¥877 million and net current assets of ¥3,018 million, ¥965 million and ¥1,715 million as at 31 March 2012, 2013 and 2014, 30 September 2014 and 31 January 2015. Our net current liabilities position improved during 31 March 2013 mainly due to (i) the decrease in short-term bank borrowing and current portion of long term borrowing by ¥4,121 million as such balance had been fully repaid during the year; and (ii) the reduction in the current income tax liabilities by ¥1,098 million as the income tax rate decreased from 40.2% to 37.6% in the year, which was partially set off by the decrease in current asset by ¥4,988 million mainly due to the decrease in cash and cash equivalents from the repurchase of shares in the year.

Our working capital position was further improved during the year ended 31 March 2014. Our cash balance increased by ¥1,500 million whilst our accruals, provisions and other payables balance was reduced by ¥1,240 million during the year, which resulted in a net current asset position of ¥3,018 million as at 31 March 2014.

As at 31 January 2015, the latest date of disclosure of working capital position, we have net current assets of ¥1,715 million. The decrease in net current assets compared to 31 March 2014 was mainly attributable to (i) increase in borrowings by ¥1,318 million to finance the opening of our new halls in November and December, and (ii) increase in accruals, provisions and other payables by ¥1,459 million arising from pachinko and pachislot machines purchased and fixed assets acquired for our new halls not yet settled and accruals for listing expenses in the period. The decrease was partially offset by the increase in pledged bank deposits and bank deposits with maturity over 3 months by ¥234 million as we placed fixed-termed deposits (with maturity less than 1 year) of the same amount in the period.

Although we had historically incurred net current liabilities (see above) as at 31 March 2012 and 31 March 2013, we recorded net current assets of ¥ 3,018 million, ¥965 million and ¥1,715 million as at 31 March 2014, 30 September 2014 and 31 January 2015, respectively, and our daily operations and hall investments were not adversely affected for the following reasons:

- We had significant cash resources during the Track Record Period. Our cash and cash equivalents amounted to ¥12,585 million, ¥6,909 million, ¥8,409 million and ¥10,002 million and ¥9,000 million as at 31 March 2012, 2013 and 2014 and 30 September 2014 and 31 January 2015, respectively.

- We have a strong net cash flow from our operating activities. Our net cash generated from operating activities amounted to ¥11,464 million, ¥7,684 million, ¥6,280 million and ¥3,164 million, for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. We expect net cash inflow from our operating activities to remain positive for the year ending 31 March 2015; and

- We have long-term relationships with major commercial banks and financial institutions in Japan. During the Track Record Period, we had made all interest payments on our bank borrowings in a timely manner and we had been able to renew our bank borrowings at maturity. Our Directors do not expect any significant difficulty to obtain new financing if so required.

ANALYSIS OF CERTAIN CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

The table below shows our non-current assets and non-current liabilities as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Non-current assets				
Property, plant and equipment	22,351	23,735	25,817	25,806
Investment properties	683	669	676	669
Intangible assets	177	161	167	172
Prepayments, deposits and other receivables	4,051	4,310	4,251	4,519
Amounts due from directors	318	311	304	—
Amounts due from related companies	435	—	—	—
Financial assets at fair value through profit or loss	395	546	601	697
Financial assets at fair value through other comprehensive income	220	919	1,574	1,476
Deferred income tax assets	1,563	1,612	1,462	2,038
Bank deposits with maturity over 1 year	142	71	84	119
	30,335	**32,334**	**34,936**	**35,496**
Non-current liabilities				
Borrowings	5,026	7,991	9,270	9,968
Obligations under finance leases	4,135	4,158	5,366	4,090
Amount due to a related company	45	—	—	—
Provisions and other payables	1,280	1,430	1,485	1,501
Derivative financial instrument	37	26	33	23
	10,523	**13,605**	**16,154**	**15,582**

Property, Plant and Equipments

The table below shows our property, plant and equipment as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Freehold land	7,253	7,400	7,389	7,752
Buildings	7,271	7,691	9,351	9,005
Leasehold improvement	4,301	4,482	4,568	4,375
Equipment and tools	3,351	3,998	4,374	4,029
Motor vehicles	70	103	83	68
Construction in progress	105	61	52	577
	22,351	**23,735**	**25,817**	**25,806**

As at 31 March 2012, 2013 and 2014 and 30 September 2014, we had property, plant and equipment of ¥22,351 million, ¥23,735 million, ¥25,817 million and ¥25,806 million, respectively. Our property, plant and equipment primarily include freehold land, buildings, leasehold improvements, tools and equipment, construction in progress and motor vehicles.

Our balance of property, plant and equipment as at 30 September 2014 remained stable compared with that as at 31 March 2014.

Our property, plant and equipment increased by ¥2,082 million, or 8.8%, from ¥23,735 million as at 31 March 2013 to ¥25,817 million as at 31 March 2014, primarily attributable to a net increase relating to buildings by ¥1,660 million and net increase relating to equipment and tools by ¥376 million. The net increase relating to buildings was mainly due to the cost capitalised for the construction of buildings for the new hall opened in the year. The increase relating to equipment and tools was mainly attributable to the purchase of IT and island equipment for pachinko and pachislot operations in our halls. The increase relating to property, plant and equipment was partially set off by the impairment of ¥620 million made on three of our halls as mentioned in "— Period to period comparison of results of operations — Year ended 31 March 2014 compared with year ended 31 March 2013" above.

Our property, plant and equipment increased by ¥1,384 million, or 6.2%, from ¥22,351 million as at 31 March 2012 to ¥23,735 million as at 31 March 2013. The increase was mainly attributable to the net increase relating to equipment and tools, buildings and leasehold improvements by ¥647 million, ¥420 million and ¥181 million, respectively, as a result of opening of the two new halls in the year ended 31 March 2013.

Investment Properties

As at 31 March 2012, 2013 and 2014 and 30 September 2014, we had investment properties of ¥683 million, ¥669 million, ¥676 million and ¥669 million, respectively. Our investment properties are comprised of the following:

(i) Nomurasyoken Building — an eight storey office building in Koriyama city in the vicinity of Koriyama train station. We own the entire interest of this property including the building and the piece of land on which the property is situated. The building was purchased by our Company in the year ended 31 March 2012 for a consideration of ¥519 million.

(ii) Nikku Club Omori Building — a three storey residential building near the Omori train station. We own the entire interest in this property including the building and the piece of land on which the property is situated. The building was originally used as staff quarters and was classified as property, plant and equipment in our financial statement. We renovated this property and leased the apartments out in the year ended 31 March 2012. As such, the property was reclassified as our investment properties in the same year at its carrying value of ¥178 million.

As set out in "Critical Accounting Policies — Property, Plant and Equipment" in the section above, investment properties are initially recognised at cost and are subsequently measured at cost minus depreciation. As such, the balance of investment properties as at 31 March 2012 and 2013 represented the cost of acquisition of the Nomurasyoken Building and the net book value of Nikku Club Omori at the date of transfer into investment properties less the accumulated depreciation charged.

We performed certain renovation work on the Nomurasyoken Building in the year ended 31 March 2014 and this led to an increase in the carrying value of investment properties from ¥669 million as at 31 March 2013 to ¥676 million as at 31 March 2014. The decrease in carrying value as at 30 September 2014 was due to the depreciation expenses charged in the period.

We engaged DTZ as our valuer for some of our properties including the investment properties. We note that the market value for our investment properties as per the valuation report exceeds their book value. See "— Property Interest and Property Valuation" in this section below and the valuation report as set out in Appendix III for further details.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables are mainly comprised of (i) rental and other deposits; (ii) rental prepayments for our leased hall properties; (iii) loans receivables from employees; and (iv) prepayment for G-prize and general prize representing the G-prize and general prize held by us as stock as at the period/year end. The table below shows the amounts as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Non-current portion				
Rental and other deposits	2,567	2,781	2,597	3,022
Rental prepayments	1,410	1,443	1,540	1,386
Loans receivables	21	21	2	2
Other prepayments and receivables	53	65	112	109
	4,051	**4,310**	**4,251**	**4,519**
Current portion				
Prepayment for G-prize	283	304	542	617
Prepayment for general prize	97	101	147	99
Rental prepayments	362	363	510	519
Other prepayments and receivables	246	266	346	251
Loans receivables	1	1	1	1
	989	**1,035**	**1,546**	**1,487**
	5,040	**5,345**	**5,797**	**6,006**

Our total prepayments, deposits and other receivables increased by ¥209 million, or 3.6%, from ¥5,797 million as at 31 March 2014 to ¥6,006 million as at 30 September 2014. The increase was mainly attributable to the increase in rental and other deposits by ¥425 million, which was mainly due to deposits paid to landlords in respect of leases of properties for our hall opened in December 2014.

Our total prepayments, deposits and other receivables increased by ¥452 million, or 8.5%, from ¥5,345 million as at 31 March 2013 to ¥5,797 million as at 31 March 2014. The increase was mainly attributable to (i) an increase in prepayment for G-prize by ¥238 million; and (ii) an increase in current and non-current portion of rental prepayments by ¥147 million and ¥97 million, respectively.

The balance of prepayment for G-prize at year/period end date depends on the player traffic of that particular day. At the beginning of each day, we generally keep stock of G-prizes sufficient for our customer traffic for two days. At the end of each day, we will place order with G-prize wholesaler for delivery on the next working day to top up our holdings to the pre-set stock level. The increase in prepayment for G-prize as at 31 March 2014 was mainly attributable to the fact that 31 March 2014 fell on a Monday with lower player traffic (i.e. less G-prize exchanged in the day) than 31 March 2013, which fell on a Sunday with higher player traffic (i.e. more G-prize exchanged in the day).

When opening a new suburban hall, we will identify the appropriate property site and then typically enter into a lease agreement (with a term of up to 20 years) to lease the piece of land which may include the actual hall properties. In some cases, the hall properties would not have been built when we sign the lease agreement. If so, upon signing, we will prepay to the landlord a portion of our total lease payment obligations (under the lease agreement) in order to finance the landlord's construction of the hall properties. This prepayment will be amortised throughout the entire term of the lease (thus, there is a current and non-current portion) and set off against each of our monthly lease payments. The current and non-current portion of rental prepayments in aggregate amounted to ¥1,772 million, ¥1,806 million, ¥2,050 million, ¥1,905 million as at 31 March 2012, 2013 and 2014 and 30 September 2014, respectively. We have never experienced landlords failing to deliver the hall properties for our use, and there was no impairment charged in relation to such rental prepayments in the Track Record Period. The increase in rental prepayments was mainly because of the recognition of rental prepayment made to landlord of Hanyu hall upon its acquisition in the year ended 31 March 2013.

Our total prepayments, deposits and other receivables increased by ¥305 million, or 6.1%, from ¥5,040 million as at 31 March 2012 to ¥5,345 million as at 31 March 2013. The increase was mainly attributable to the increase in rental and other deposits by ¥214 million, which was due to deposits paid to landlords for the new hall opened in the year ended 31 March 2014.

Amount Due from Directors, a Shareholder and Related Companies

The table below shows our amount due from directors, shareholders and related companies as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Amounts due from directors and a shareholder				
Hisanori TANIGUCHI	98	97	95	—
Tatsuo TANIGUCHI	98	97	95	—
Masataka TANIGUCHI	132	129	126	—
	328	323	316	—
Amounts due from related companies				
Jukki Limited	70	—	—	—
Densho Limited	70	—	—	—
Echo Limited	70	—	—	—
Daiki Limited	70	—	—	—
Hokuyo Kanko Limited	155	—	—	—
	435	—	—	—
Amounts due to related companies				
KAWASHIMA Co., Ltd.	(45)	—	—	—
Niraku Investment Inc.	—	—	—	(24)
	(45)	—	—	(24)
Amount due to a related party				
Kyoko TANIGUCHI	(100)	—	—	—

Amounts due from Directors and Shareholders mainly represent the rental deposits and prepaid rental for leasing property from them in respect of our hall in Nakano. The amounts have been settled after we acquired the hall property in the six months ended 30 September 2014.

Amounts due from related companies represented the interest bearing loans offered to companies which are members of the Taniguchi Consortium. Amount due to related companies represented (i) a loan, which was interest bearing due to KAWASHIMA Co., Ltd, a company owned by members of the Taniguchi family; and (ii) a sum of short-term advance from Niraku Investment Inc., a company owned by our shareholders. Amount due to a related party represented an interest bearing loan which was repayable on 1 February 2012 from Kyoko TANIGUCHI, a member of the Taniguchi Consortium.

Since we were a private company before Listing and our Directors managed the capital and funding needs of the then members of our Group as a whole, we occasionally entered into various loans and short-term advances arrangement with members of our shareholder, Directors and related companies. In view of our Listing, all of the balances due from or due to our shareholder, Directors and related companies as mentioned above have been settled before the date of issue of this Prospectus.

Financial assets and liabilities at fair value

The table below shows our financial assets and liabilities recorded at fair value as at the indicated dates:

Financial assets at fair value through profit or loss

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Unlisted securities				
- Debt securities	429	546	701	697
- Less non-current portion	(395)	(546)	(601)	(697)
Current portion	34	—	100	—

Financial assets at fair value through other comprehensive income

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Listed securities				
- Equity securities	134	909	1,574	1,474
Unlisted securities				
- Equity securities	86	10	—	2
Non-current portion	220	919	1,574	1,476

Derivative financial liability

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Interest rate swap.	55	44	48	38
Less non-current portion	(37)	(26)	(33)	(23)
Current portion	18	18	15	15

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss represents unlisted debt securities in Japan that we purchased as part of our treasury management strategy aiming to obtain higher yield than regular bank deposits. Our investments in debt securities in the Track Record Period were kept with registered banks in Japan. We invested in (i) sovereign bonds issued by Japan, (ii) bonds with fixed return, (iii) bonds with embedded options resulting in variable return, and (iv) units in a certain trust in the Track Record Period. There has been no default or any impairment made to the debt securities we held in the Track Record Period. The table below shows the total gains/losses of our financial assets at fair value through profit and loss during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
				(unaudited)	
(Loss)/gain on fair value for financial assets at fair through profit or loss	(8)	11	5	2	4
(Loss)/gain on disposal of financial assets at fair value through profit or loss	—	(28)	—	5	—
Total	(8)	(17)	5	7	4

As at 30 September 2014, the fair value of the debt securities we held amounted to ¥697 million. The debt securities consisted of sovereign bonds issued by Japanese government, debt securities issued by financial institutions in Japan, and units in two trusts organised by a bank in Japan. In the future, if we are to dispose of the investments in sovereign bonds, we will approach banks or securities houses for price quotes. If we are to dispose of the bonds with embedded options, we will contact the issuer of the bonds to unwind the investment positions. We intend to hold the trust instruments till their maturity. There are no terms in such debt securities that will cause us to lose our entitlement to the full principal amount thereunder. The table below shows a summary of the features of the debt securities:

Name	Type of debt instrument	Issuer	Term	Maturity	Interest rate	Other features	Carrying value as at 30 September 2014
							(¥, in millions)
Sovereign bond (1)							
Interest-bearing treasury bonds - 333th round	Plain bond	Japanese government	1 year 11 months	15/10/2015	0.058%		100
Interest-bearing treasury bonds - 340th round	Plain bond	Japanese government	1 year 11 months	15/5/2016	0.053%		100
							200
Bond with embedded options (2)							
Unsecured bond with repayment clause - 2nd round	Bond with early retirement feature and variable return	A bank in Japan	10 years	25/3/2020	(i) First 5 years - 3.36%, (ii) Remaining term - 6 month TIBOR + 4.1%	***Early retirement clause:*** Issuer can recall all or part of the loan at each interest payment date at face value.	300
Multi-Collar bull swap rate-linked bond	Bond with early retirement feature and variable return	A registered financial institution in Japan	20 years	19/3/2027	(i) First 6 months - 2%, (ii) Remaining term - a. Nikkei > 15,160 points - Different between 10-year and 2-year yen swap rate + 0.5% When Nikkei <15,160, interest rate = 0.1%	***Early retirement clause:*** (i) Issuer can recall all or part of the loan at each interest payment date at face value. (ii) Force redemption when Nikkei > 18,530 at any interest payment date	97
							397
Trust instruments (3)							
Trust instrument (with designated usage)	Trust units	A bank in Japan	10 years	3/8/2022	0.680%		50
Trust instrument (with designated usage)	Trust units	A bank in Japan	10 years	21/6/2023	0.730%		50
							100
Total							697

Notes:

(1) It represents bonds issued by government or fully backed by government. Bonds included in this category are plain bonds with no embedded options or features.

(2) It represents debt instruments with return linked to the performance of stock index or share price of a basket of shares.

(3) It represents investments in unit of a trust organised by a bank in Japan. The aim of these trust funds is to invest in business in Fukushima to support the revival of its economy. The trust intends to offer a fixed return over its investment period but the final return is subject to the actual performance of the trust.

Financial assets at fair value through other comprehensive income

Our financial asset at fair value through other comprehensive income represented our investments in equity securities. The majority of our holdings in equity securities in the Track Record Period was the Hong Kong listed shares of a fellow pachinko hall operator in Japan. Our other holdings of equity securities mainly represented holdings in listed shares of banks, consumables suppliers, machines suppliers and engineering companies in which we had business relationship with. We consider these investments as our strategic investment and does not have any plans to dispose of such equity securities. Hence, such shares are accounted for as financial assets at fair value through other comprehensive income in non-current assets.

The increase of financial asset at fair value through other comprehensive income in the Track Record Period mainly represented the increase in share price of the fellow pachinko hall operator due to the listing of its shares in the year ended 31 March 2013. The slight decrease in the balance as at 30 September 2014 mainly represented the decrease in quoted market price of shares of the fellow pachinko player. The table below shows the changes in other comprehensive income as a result of movement in fair value of these investments during the Track Record Period.

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
				(unaudited)	
Changes in fair value of financial assets through other comprehensive income	16	124	433	163	(39)

As a measure to further strengthen our risk management, we will limit the total amount of our investments in debt securities and equity securities in aggregate to not more than 5% of our total assets upon Listing. Our equity investments mainly represented strategic investments in the equity of various stakeholders in the pachinko industry, primarily to support and promote long-term relationships with industry players. In particular, we purchased shares of a fellow pachinko hall operator listed on the Stock Exchange to show support towards and promote the image of the pachinko industry. Such investment accounted for approximately 55% of the total amount of our investments in securities as at 30 September 2014. Going forward, while maintaining our securities investment limit to 5% of our total assets, we intend to prioritise our investment in the stakeholders of the pachinko industries with a secondary focus on debt securities having a credit rating of investment grade or above (as rated by international rating agencies). We do not plan to enter into any derivatives transactions with the exceptions of interest rate swap to manage our interest rate exposures arising from floating rate borrowings if such need arises.

As at 30 September 2014, except for the ¥2 million equity investment in a private company in Japan, all the other holdings in equity securities were listed securities, while all of our debt securities held were unlisted. The table below shows a breakdown of our equity holdings by location of listing and industry as at 30 September 2014:

	As at 30 September 2014
	(¥, in millions)
Equity securities listed on	
- Tokyo Stock Exchange	212
- Sapporo Securities Exchange	11
- Stock Exchange	1,251
	1,474
Unlisted equity securities	2
Total value of equity securities	1,476

Our Executive Director is responsible for monitoring our investment limit, investment decisions and the performance of the investment portfolio, in accordance with the internal control measures. Our head of finance department will monitor the price of equity securities on a daily basis and price of debt securities by checking to the monthly custodian statement received. The credit rating of the issuer of the debt securities will also be checked monthly. The head of finance department will alert our Executive Director when price of the listed share drops by 15% of its acquisition cost, or when an issuer of debt securities we hold suffers a major credit downgrade. Our Executive Director will decide on whether to dispose of the investment depending on assessment of market outlook and potential loss. Our Audit Committee will be responsible for reviewing the positions and performance of our investment portfolio on a quarterly basis and provide recommendation as to the internal control procedures for our investment as appropriate.

Derivative financial liability

In the Track Record Period, we entered into a total of 16 floating to fix interest rate swap contracts with three banks in Japan (i.e. we pay fixed rate and receive floating rate). We entered into these interest rate swaps as a measure to manage our interest rate risk in relation to our loans. As some of our loans' interest rate is on a floating rate basis, by entering into a floating interest rate to fixed interest rate swap, we can lock in our finance cost at the desired fixed interest rate. The following sets forth a breakdown of the interest rate swaps and the respective loan pair in the Track Record Period:

Swap contracts

Interest Rate Swaps									Loans with Floating Interest Rate								
Contract Number	Start date	End date	Interest rate we pay	Interest rate we receive	Notional amount as at[1]				Loan Number	Loan Name	Start date of the loan	End date of the loan	Interest rate	Loan Balance as at[1]			
					31 March 2012	31 March 2013	31 March 2014	30 September 2014						31 March 2012	31 March 2013	31 March 2014	30 September 2014
201	25/12/2006	26/3/2012	4.14%	3 TIBOR +2.25%	N/A	N/A	N/A	N/A	201	Syndicated loan - 9th round	30/9/2007	26/3/2012	3 mth TIBOR +2.25%	N/A	N/A	N/A	N/A
202	25/12/2006	26/3/2012	4.15%	6 mth TIBOR +2.25%	N/A	N/A	N/A	N/A	202	Syndicated loan - 10th round	25/12/2006	25/3/2012	6 mth TIBOR +2.25%	N/A	N/A	N/A	N/A
227	3/9/2007	22/3/2013	3.86%	3 mth TIBOR +2.125%	210	N/A	N/A	N/A	227	Syndicated loan - 14th round	21/3/2007	22/3/2013	3 mth TIBOR +2.125%	300	N/A	N/A	N/A
249	24/3/2008	22/3/2013	3.70%	3 mth TIBOR +2.125%	350	70	N/A	N/A	249	Syndicated loan - 11th round	24/3/2008	22/3/2013	3 mth TIBOR +2.125%	250	N/A	N/A	N/A
238	28/12/2007	28/6/2013	3.94%	3 mth TIBOR +2.125%	375	75	N/A	N/A	238	Syndicated loan - 12th round	28/12/2007	30/6/2013	3 mth TIBOR +2.125%	375	75	N/A	N/A
240-A	7/3/2008	7/9/2017	3.99%	3 mth TIBOR +2.125%	694	568	442	378	240	Syndicated loan - 15th round - A	7/9/2007	7/9/2017	3 mth TIBOR +2.125%	694	568	442	378
240-B	7/3/2008	7/9/2012	3.67%	3 mth TIBOR +2.125%	33	N/A	N/A	N/A	240	Syndicated loan - 15th round - B	7/9/2007	7/9/2012	3 mth TIBOR +2.125%	33	N/A	N/A	N/A

Interest Rate Swaps									Loans with Floating Interest Rate								
Contract Number	Start date	End date	Interest rate we pay	Interest rate we receive	Notional amount as at(1)				Loan Number	Loan Name	Start date of the loan	End date of the loan	Interest rate	Loan Balance as at(1)			
					31 March 2012	31 March 2013	31 March 2014	30 September 2014						31 March 2012	31 March 2013	31 March 2014	30 September 2014
226	24/3/2008	22/3/2013	3.70%	3 mth TIBOR +2.125%	300	N/A	N/A	N/A	226	Syndicated loan - 13th round	24/3/2008	22/3/2013	3 mth TIBOR +2.125%	300	N/A	N/A	N/A
325	18/3/2011	28/2/2014	3.25%	3 mth LIBOR +1.40%	600	500	N/A	N/A	325	Loan for construction of stores	18/3/2011	28/2/2014	3 mth LIBOR +1.40%	600	500	N/A	N/A
372	28/9/2012	30/9/2015	2.90%	3 mth LIBOR +1.30%	N/A	N/A	150	100	372	Loan for working capital	28/9/2012	30/9/2015	3 mth LIBOR +1.30%	N/A	250	150	100
389	29/3/2013	31/3/2016	2.70%	3 mth LIBOR +1.24%	N/A	N/A	340	260	389	Loan for working capital	29/3/2013	31/3/2016	3 mth LIBOR +1.24%	N/A	500	340	260
410	30/9/2013	30/9/2016	2.60%	3 mth LIBOR +1.17%	N/A	N/A	420	340	410	Loan for working capital	30/9/2013	30/9/2016	3 mth LIBOR +1.17%	N/A	N/A	420	340
424	28/2/2014	28/2/2018	2.60%	3 mth LIBOR +1.25%	N/A	N/A	400	350	424	Loan for construction of stores	28/2/2014	28/2/2018	3 mth LIBOR +1.25%	N/A	N/A	400	350
426	31/3/2014	31/3/2017	2.55%	3 mth LIBOR +1.19%	N/A	N/A	300	250	426	Loan for working capital	31/3/2014	31/3/2017	3 mth LIBOR +1.19%	N/A	N/A	300	250
427	30/12/2014	31/3/2021	2.5%	3 mth TIBOR + 1.8%	N/A	N/A	N/A	480	427	Loan for construction of stores	26/3/2014	31/3/2021	3 mth TIBOR +1.8%	N/A	N/A	N/A	650
442	30/9/2014	29/9/2017	2.57%	3 mth LIBOR + 1.21%	N/A	N/A	N/A	300	442	Loan for working capital	30/9/2014	29/9/2017	3 mth LIBOR +1.21%	N/A	N/A	N/A	300

Note:

(1) The notional amount of a amount of a swap and the loan balance of a loan is shown as "N/A" when the loan had not been entered into or already expired at that period/year and date.

The table below shows the gain and loss arising from movements in fair value and net interest expenses arising from interest rate swaps during the indicated periods:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
Gain/(loss) from interest rate swaps arising from:					
- movement in fair value	44	11	(4)	(3)	10
- net interest expenses	(55)	(33)	(28)	(16)	(13)
Total	(11)	(22)	(32)	(19)	(3)

Given our view on the continuously stagnant Japanese economy and the quantitative easing programs implemented by major central banks (including The Bank of Japan) around the world over the past few years and recently, we did not consider it to be necessary to hedge our interest rate exposure arising out of our floating rate long-term bank borrowings during the Track Record Period, nor do we consider such to be necessary in the near future until the Japanese economy is able to show more signs of sustainable growth. For details of the maturity profile of the non-current portion of our long-term bank borrowings, see "—Indebtedness —Borrowings—non-current portion" in this section above.

Nevertheless, during the Track Record Period, certain financial institutions bundled an interest rate swap as an integral part of the loans extended to us. We note that, with the interest rate swap, our cost of borrowings for such loans, on average, would increase by approximately 1% per annum throughout their term. However, for the sake of maintaining good relationships with our bankers, we found it acceptable to enter into such interest rate swap transactions as advised by our bankers. As at 30 September 2014, approximately 25% of the outstanding balance of long term bank borrowings was hedged with interest rate swaps.

Inventory

The table below shows our inventory as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Pachinko and pachislot machines	407	65	16	34
Others	5	21	5	6
	412	86	21	40
Inventory turnover days (Note)	0.41	0.38	0.08	0.06

Note: Inventory turnover days are calculated based on the average of the beginning and ending inventory balance of a given year/period divided by the total gross pay-ins of our Group, and multiplied by 365 days for year ended 31 March 2012, 2013 and 2014, and by 183 days for the six months ended 30 September 2014.

Our inventory mainly included pachinko and pachislot machines not yet installed. The decrease in the balance of pachinko and pachislot machines as at 31 March 2013 by ¥326 million was mainly due to delivery of a large batch of machines worth around ¥400 million but remained uninstalled as at 31 March 2012. All of such machines were subsequently installed into our halls and therefore the cost of such machines have been charged to our hall operating expenses.

Our inventory turnover days were low as we do not require significant amount of inventory to operate our business. Our inventory turnover days were less than 1 day for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014.

For the inventory as at 30 September 2014, all except ¥1 million were subsequently used up by 31 January 2015.

Trade receivables

Our pachinko and pachislot business does not generate any trade receivables as all our customers are required to pay for the pachinko balls and pachislot tokens when rented. Our trade receivable mainly represents balances due from vending machine operators for the concession income from vending machines, which usually amounted to up to 40% of the gross receipts of such machines. We typically offer credit period of 0-30 days to our vending machine operators. In respect of adopting a new vending machine operator, we will normally assess its credit worthiness by conducting company searches. We monitor closely our outstanding trade receivables and will issue written reminders to follow-up with our customers if trade receivable balances become long outstanding.

Our trade receivables balance remained stable in the Track Record Period. It amounted to ¥60 million, ¥64 million, ¥54 million and ¥52 million for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014. The table below shows our trade receivables as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥million	¥million	¥million	¥million
Trade receivables	65	69	59	57
Less: provision for impairment of trade receivables	(5)	(5)	(5)	(5)
	60	64	54	52

The table below shows the ageing analysis of our trade receivables based on invoice date:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥million	¥million	¥million	¥million
Less than 30 days	57	61	51	49
31-90 days	—	—	—	—
Over 90 days	8	8	8	8
	65	69	59	57
Debtor turnover days (Note)	25.2	30.3	30.6	32.2

Note: Our trade receivables represent the receivables from vending machines operators. The debtor turnover days are calculated based on the average of beginning and the ending trade receivables balance (net of provision for impairment of trade receivables) of a given year/period divided by our vending machine income, and multiplied by 365 days for year ended 31 March 2012, 2013 and 2014, and by 183 days for the six months ended 30 September 2014.

Our debtor turnover days were stable in the Track Record Period and amounted to 25.2 days, 30.3 days, 30.6 days and 32.2 days for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014, which aligned with the credit period we offered to vending machine operators.

For our trade receivables, the maximum exposure to credit risk at the reporting date is the carrying value of such receivables mentioned above. We do not hold any collateral as security in respect of our trade receivables. Our policy for impairment loss on trade receivables is based on an evaluation of evidence of impairment, including collectability and ageing analysis of the receivables, on both individual and collective basis, which requires the use of judgment and estimates. We make provisions for receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. Our management closely review the trade receivable balances and any overdue balances on an ongoing basis and assessments are made by our management on the collectability of overdue balances. In 2011, we recognised a provision for impairment of ¥5 million of trade receivable balances due from a vending machines operator in which we were unable to collect.

Save as mentioned above, we have not made any provision for allowance for doubtful debts and any impairment on the trade receivables during the Track Record Period and up to Latest Practicable Date.

As at 31 January 2015, all of our trade receivables as at 30 September 2014 were settled.

Trade Payables

Our trade payables mainly represent payables to suppliers of general prize. The table below shows the ageing analysis of our trade receivables as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Less than 30 days	164	213	112	62
31-90 days	183	169	89	83
	347	382	201	145
Creditor's turnover days(1)	0.37	0.55	0.45	0.35
Adjusted creditor's turnover days(2)	42.6	66.7	56.1	33.5

Notes:

(1) Creditor's turnover days are calculated based on (i) the average of the beginning and ending trade payable balances of a given year/period; (ii) divided by our gross pay-ins for the corresponding year/period and (iii) multiplied by 365 days for years ended 31 March 2012, 2013 and 2014 and by 183 days for the six months ended 30 September 2014.

(2) Adjusted creditor's turnover days are calculated based on: (i) the average of the beginning and ending trade payable balances (entirely related to general prize suppliers) of a given year/period; (ii) divided by the total costs of general prizes redeemed for the corresponding year/period; and (iii) multiplied by 365 days for the years ended 31 March 2012, 2013 and 2014 and by 183 days for the six months ended 30 September 2014.

We are generally required to settle our purchases to G-prize wholesaler by cash upon delivery of the G-prize, as such there were no trade payables to G-prize suppliers in the Track Record Period. General prize supplier usually allows credit period up to 60 days. Our adjusted creditor turnover days (showing the average days of turnover of our trade payables in respect of cost of general prize exchanged) remained at similar level to credit period offered in the Track Record Period as it is our practice to settle trade payable balances according to credit terms offered.

As at 31 January 2015, all of our trade payables as at 30 September 2014 have been settled.

Accruals, provision and other payables

The table below shows the accruals, provisions and other payables as at the indicated dates:

	As at 31 March			As at 30-Sep
	2012	2013	2014	2014
	(¥, in millions)			
Non-current portion				
Provision for reinstatement costs	1,141	1,267	1,320	1,337
Vending machine rental deposit and rental receipt in advance	96	111	105	105
Other payables and provision for long service payment	43	52	60	59
	1,280	**1,430**	**1,485**	**1,501**
Current portion				
Accrued expenses	1,490	1,450	837	2,369
Other payables	1,465	1,513	1,016	1,215
Vending machine rental receipt in advance	280	261	276	230
Unutilised balls and tokens	342	360	215	511
	3,577	**3,584**	**2,344**	**4,325**

Provision for reinstatement cost represents the provision for cost to reinstate rental premises into its original conditions upon termination of lease. The amount of provision was spread evenly across the lease term as stated in the rental contract. The increase of provision for reinstatement cost in the Track Record Period was mainly due to the increase in our rented hall properties for opening new halls as part of our expansion plan.

Vending machine rental deposits and rental receipt in advance represent the advances and deposits received from the vending machine operators. We generally require the vending machine operators to prepay their rent at the inception of their lease of the vending machine slots (usually for 3 years). The balance remained stable in the Track Record Period.

Accrued expenses represent (i) accrual for the purchases of pachinko and pachislot machines which has been delivered; (ii) accrual for the purchases of property, plant and equipment which has not yet been billed by the suppliers; and (iii) accrued staff benefits. The amount remained stable from 31 March 2012 to 31 March 2013. The decrease from ¥1,450 million as at 31 March 2013 to ¥837 million as at 31 March 2014 followed by an increase to ¥2,369 million as at 30 September 2014 was mainly due to the retirement payments of ¥600 million each paid to Mr. Masataka TANIGUCHI and Mr. Tatsuo TANIGUCHI in the year ended 31 March 2013 and in the six months ended 30 September 2014, respectively. The increase in accrued expenses as at 30 September 2014 was also due to the increase in accrual for purchases of pachinko and pachislot machines of ¥546 million as compared to the prior year.

Other payables mainly represent (i) payables due to suppliers for office consumables and services; (ii) payables for fixed property tax; (iii) payables for utilities; and (iv) insurance premium payable. The decrease of balance from ¥1,513 million as at 31 March 2013 to ¥1,016 million as at 31 March 2014 was mainly due to the decrease of provisions for office services consumables and of ¥287 million. The balance remained stable at the end of other period/year.

The balance of unutilised balls and tokens represents the monetary value of ball and tokens stored in membership cards. According to the terms of our membership card, we allow our members to store a maximum of 999,999 balls and 199,999 tokens in their membership card which they can use to play pachinko and pachislot games and redeem general prizes and G-prizes, and there is no expiry for such balls and tokens. The monetary amount of such unutilised balls and tokens remained stable from 31 March 2012 to 31 March 2013. The amount decreased to ¥215 million as at 31 March 2014 and subsequently bounced back to ¥511 million as at 30 September 2014, as our customers delayed their redemption of G-prizes with their unutilised balls after we implemented mark-ups on G-prizes with effect from 1 April 2014, which gave rise to an increase in the unutilised balls and tokens. See "— Financial Metrics of Our Business" in this section above for further details on unutilised balls and tokens.

PROPERTY INTEREST AND PROPERTY VALUATION

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued certain interests of our properties in Japan as at 31 January 2015 and is of the opinion that the value was, in aggregate, ¥1,452 million, with the entire value attributable to us. The full text of the letter, summary of valuation certificates with regard to such property interests are set forth in "Appendix III — Valuation Report on Selected Property Interests" to this Prospectus.

The statement below shows the reconciliation of aggregate amounts of certain properties as selected in our audited consolidated financial information as at 30 September 2014 as set forth in "Appendix I — Accountant's Report" to this Prospectus with the valuation of these properties as at 31 January 2015 as set forth in "Appendix III — Valuation Report on Selected Property Interests" to this Prospectus.

	¥ (million)
Net book value of the following properties as at 30 September 2014	
- Freehold land and buildings included in investment properties(1)	669
- Freehold land and buildings included in property, plant and equipment(2)	536
Total	1,205
Movements during the period from 1 October 2014 to 31 January 2015(3)	(11)
Net book value as at 31 January 2015	1,194
Net valuation surplus	258
Valuation of properties owned by our Group as at 31 January 2015 as set out in the property valuation report in Appendix III to this Prospectus	1,452

Notes:

(1) Freehold land and buildings included in investment properties represents the property interests in Nomurasyoken Building and Nikku Club Omori Building and the parcel of land these buildings sit on respectively.

(2) Freehold land and buildings included in property, plant and equipment represents the property interests in Koriyama City Hotel and the parcel of land it sits on.

(3) Movements for the period from 1 October 2014 to 31 January 2015 represented the depreciation of ¥4 million and ¥7 million of buildings included in investment properties and property, plant and equipment, respectively.

SELECTED KEY FINANCIAL RATIOS

	As at 31 March			As at 30 September
	2012	**2013**	**2014**	**2014**
Current ratio(1)	0.93	0.92	1.34	1.08
Quick ratio(2)	0.90	0.91	1.33	1.07
Gearing ratio (%)(3)	101.4	98.7	91.7	100.4
Debt to equity ratio (%)(4)	33.9	60.0	53.2	52.5
Return on total assets (%)(5)	7.4	8.9	7.9	3.8*
Return on equity (%)(6)	17.9	21.1	17.0	9.0*
Interest coverage(7)	9.7	10.9	9.8	7.0

Notes:

* Profit attributable to shareholders used for calculation is annualised based on the actual results for the six months ended 30 September 2014 as to be comparable with annual data.

(1) Current ratio is calculated by dividing current assets with current liabilities as at the respective year/period end.

(2) Quick ratio is calculated by dividing current assets (less inventory) with current liabilities as at the respective year/period end.

(3) Gearing ratio is calculated by dividing the (i) aggregate of interest-bearing loans, (ii) shareholder's loans and (iii) obligations under finance leases and (iv) amount due to related company with the total equity as at the respective year/period end times 100%.

(4) Debt to equity ratio is calculated by dividing the net debt (being the total debt less cash and cash equivalents) with total equity as at the respective year/period end times 100%.

(5) Return on total assets is calculated by dividing profit attributable to shareholders for the year or period with the total assets as at the respective year or period end times 100%.

(6) Return on equity is calculated by dividing profit attributable to shareholders for the year or period with the total equity as at the respective year or period end times 100%.

(7) Interest coverage is calculated by dividing profit before interest and tax with the finance cost for the corresponding year/period.

Current Ratio

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our current ratio was 0.93, 0.92, 1.34 and 1.08, respectively. Our current ratio remained stable from 31 March 2012 to 31 March 2013.

Our current ratio increased from 0.92 as at 31 March 2013 to 1.34 as at 31 March 2014 was mainly due to (i) an increase in cash and cash equivalents by ¥1,500 million as a result of the increase in borrowings (current and non-current portion), and (ii) a decrease in accruals, provisions and other payables primarily as a result of the one-off special retirement benefit to Mr. Masataka TANIGUCHI of ¥600 million was accrued in the year ended 31 March 2013 but not in the year ended 31 March 2014.

Our current ratio decreased from 1.34 as at 31 March 2014 to 1.08 as at 30 September 2014 was mainly due to the increase in current liabilities outpaced the increase in current assets in the six months ended 30 September 2014. The increase in current liabilities was mainly due to (i) an increase in current portion of borrowings by ¥964 million for the six month ended 30 September 2014, (ii) the accrued one-off special retirement benefit to Mr. Tatsuo TANIGUCHI which amounted to ¥600 million, (iii) an increase in obligation under finance lease by ¥555 million, and (iv) an increase in accrued purchases of pachinko and pachislot machines by ¥546 million for our new hall opened in November 2014. The increase in current assets was mainly due to the increase in cash and cash equivalents by ¥1,593 million as a result of the increase in total borrowings (current and non-current portion) for the six months ended 30 September 2014.

Quick Ratio

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our quick ratio was 0.90, 0.91, 1.33 and 1.07, respectively. As our inventory merely represented 2.8%, 0.9%, 0.2% and 0.3% of our total current assets as at 31 March 2012, 2013 and 2014 and 30 September 2014, respectively, changes in our quick ratio was primarily due to the same reason as the changes in our current ratio discussed above.

Gearing Ratio

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our gearing ratio was 101.4%, 98.7%, 91.7% and 100.4%, respectively. Our gearing ratio remained stable from 31 March 2012 to 31 March 2013.

Our gearing ratio decreased from 98.7% as at 31 March 2013 to 91.7% as at 31 March 2014 was mainly because the increase in total equity outpaced the increase in total debt in the year ended 31 March 2014. The increase in total equity was mainly due to the profit made for the year ended 31 March 2014, which amounted to ¥3,698 million. The increase in total debt was mainly due to the increase in total borrowings (current and non-current portion) and total obligation under finance leases (current and non-current portion) by ¥1,306 million and ¥1,067 million, respectively, in the year ended 31 March 2014.

Our gearing ratio increased from 91.7% as at 31 March 2014 to 100.4% as at 30 September 2014 was mainly due to the increase in total borrowings (current and non-current portion) by ¥1,662 million, while equity remained relatively stable in the six months ended 30 September 2014.

Debt to Equity Ratio

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our debt to equity ratio was 33.9%, 60.0%, 53.2% and 52.5%, respectively. Our debt to equity ratio increased from 33.9% as at 31 March 2012 to 60.0% as at 31 March 2013 was mainly due to the increase of net debt balance, while our equity balance remained relatively stable. The increase in our net debt balance was mainly due to the decrease in cash and cash equivalent primarily as a result of the cash outflow for the purchase of shares of Niraku Corporation and Nexia which amounted to ¥4,575 million.

Our debt to equity ratio decreased from 60.0% as at 31 March 2013 to 53.2% as at 31 March 2014 was mainly because the increase in total equity outpaced the increase in total debt in 31 March 2014. The increase in total equity was mainly due to the profit made for year ended 31 March 2014, which amounted to ¥3,698 million.

Our debt to equity ratio remained stable from 31 March 2014 to 30 September 2014.

Return on Total Assets

For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our return on total assets was 7.4%, 8.9%, 7.9% and 3.8%, respectively. Our return on total assets increased from 7.4% for the year ended 31 March 2012 to 8.9% for the year ended 31 March 2013 was mainly due to (i) an increase in the profit made for the year by ¥436 million primarily as a result of the increase in revenue caused by the increase in our pachinko hall network from 50 halls as at 31 March 2012 to 52 halls as at 31 March 2013 under similar cost structure, and (ii) a decrease in our total assets primarily as a result of the decrease in cash and cash equivalent caused by the cash outflow for the purchase of shares of Niraku Corporation and Nexia which amounted to ¥4,575 million.

Our return on total assets decreased from 8.9% for the year ended 31 March 2013 to 7.9% for the year ended 31 March 2014 was mainly due to the increase in total assets primarily as the result of (i) an increase in our cash and cash equivalents by ¥1,500 million caused by the increase in total borrowings (current and non-current portion); (ii) an increase in our property, plant and equipment by ¥2,082 million caused by the increase in our pachinko hall network from 52 halls as at 31 March 2013 to 53 halls as at 31 March 2014 which was substantially financed by debt; and (iii) an increase in fair value of equity securities held by ¥665 million for the year ended 31 March 2014.

Our return on total assets decreased from 7.9% for the year ended 31 March 2014 to 3.8% for the six months ended 30 September 2014 was mainly due to (i) a decrease in our profit by ¥686 million primarily as a result of the one-off special retirement benefit to Mr. Tatsuo

TANIGUCHI which amounted to ¥600 million, and (ii) an increase in our total assets primarily as a result of the increase in our cash and cash equivalent by ¥1,593 million caused by the increase in total borrowings (current and non-current portion) in the six months ended 30 September 2014 as compared to the same period in 2013.

Return on Equity

For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our return on total equity was 17.9%, 21.1%, 17.0% and 9.0%, respectively. Our return on equity increased from 17.9% for the year ended 31 March 2012 to 21.1% for the year ended 31 March 2013 was mainly due to an increase in our profit by ¥436 million as a result of an increase of revenue caused by the increase in our pachinko hall network from 50 halls as at 31 March 2012 to 52 halls as at 31 March 2013 under similar cost structure, while our equity balance remained relatively stable.

Our return on equity decreased from 21.1% for the year ended 31 March 2013 to 17.0% for the year ended 31 March 2014 was mainly due to an increase in total equity as a result of the increase in fair value of equity securities (net of tax) realised through other comprehensive income which amounted to ¥433 million in the year ended 31 March 2014, while profit remained relatively stable for the year ended 31 March 2014.

Our return on equity decreased from 17.0% for the year ended 31 March 2014 to 9.0% for the six months ended 30 September 2014 was mainly due to a decrease in our profit by ¥686 million as a result of the one-off special retirement benefits to Mr. Tatsuo TANIGUCHI which amounted to ¥600 million.

Interest Coverage

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our interest coverage was 9.7, 10.9, 9.8 and 7.0, respectively. Our interest coverage increased from 9.7 to 10.9 for the year ended 31 March 2013 mainly due to an increase in net profit before interest and tax by ¥107 million primarily driven by the increase in our revenue from pachinko and pachislot hall operations in the year. The increase was also due to a decrease in finance cost by ¥71 million as our total borrowings (current and non-current portion) decreased by ¥1,156 million as at 31 March 2013 as compared to that as at 31 March 2012.

Our interest coverage decreased from 10.9 for the year ended 31 March 2013 to 9.8 for the year ended 31 March 2014 mainly due to a decrease in net profit before interest and tax by ¥448 million primarily driven by a decrease in our operating profit in the year. The decrease was also due to an increase in finance cost for ¥29 million as our total borrowings increased by ¥1,306 million from 31 March 2013 to 31 March 2014.

Our interest coverage decreased from 9.8 for the year ended 31 March 2014 to 7.0 for the six months ended 30 September 2014. The decrease was mainly due to a decrease in our profit before interest and tax by ¥1,127 million compared to that for the six months ended 30 September 2013 (or decrease in annualised profit before interest and tax for ¥2,902 million compared to the year ended 31 March 2014) as a result of the one-off special retirement benefits to Mr. Tatsuo TANIGUCHI which amounted to ¥600 million.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including borrowings and internally generated funds, and the estimated net proceeds of the Global Offering, our Group has sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this Prospectus.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 35 to the accountant's report in Appendix I to this Prospectus, our Directors confirmed that these transactions were conducted on an arm's length basis and normal commercial terms. The effect of such related party transactions would not distort the track record to the extent that the historical results of our Group are not reflective of its performance.

DECREASE IN NET PROFIT FOR SIX MONTHS ENDED 30 SEPTEMBER 2014 AS COMPARED TO SIX MONTHS ENDED 30 SEPTEMBER 2013

Our net profit after tax attributable for the six months ended 30 September 2014 has decreased by 42.2% as compared to six months ended 30 September 2013. The decrease in net profit was mainly due to the effects of the following one-off items:

(1) listing expenses of ¥226 million recognised as expenses in our consolidated statements of comprehensive income; and

(2) retirement payment of ¥600 million made to Mr. Tatsuo TANIGUCHI (谷口龍雄) during the six months ended 30 September 2014 for his retirement as a Director of our Company in the same period.

See "— Listing Expenses" in this section below for listing expenses that will be charged after 30 September 2014.

LISTING EXPENSES

The estimated total listing expenses (assuming an Offer Price of HK$1.19 per Offer Share, being the mid-point of our indicative Offer Price range of HK$1.10 to HK$1.28 and that the Over-allotment Option is not exercised) incurred or to be incurred in relation to the Global Offering are approximately ¥1,149 million (approximately HK$76 million), of which approximately: (1) ¥340 million (approximately HK$22 million) is directly attributable to the issue of new Shares in the Global Offering and to be accounted for as a deduction from equity; and (2) ¥809 million (approximately HK$54 million) is to be charged as administrative expenses to our profit and loss accounts for the year ending 31 March 2015. Out of this amount, approximately ¥226 million (approximately HK$15 million) had been charged to our profit and loss account for the six months ended 30 September 2014, and a further amount of approximately ¥583 million (approximately HK$39 million) is expected to be charged to our profit and loss account as administrative and other operating expenses for the six months ending 31 March 2015.

DISTRIBUTABLE RESERVES

Our Company was incorporated in Japan on 10 January 2013. As at 30 September 2014, there was ¥2,748 million distributable reserves (calculated according to the relevant provisions as set out in the Japan Companies Act) available for distribution to our shareholders. See "Appendix V — Summary of Our Articles of Incorporation and Japan Corporation Law — 6. Dividends and Distributions — Distributable amount" for further details on calculation of amounts of distributable reserves.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT OUR FINANCIAL RISKS

Cash Flow and Fair Value Interest Rate Risk

Our interest rate risk mainly arises from bank balances and borrowings which are carried at variable rates, which expose us to interest rate risk.

As at 31 March 2012, 2013 and 2014, and as at 30 September 2014, if interest rates were to increase or decrease by 25 basis points and all other variables were held constant, our Group's pre-tax profit would decrease or increase by approximately ¥3 million, ¥6 million, ¥5 million and ¥6 million, respectively, as a result of increase or decrease in net interest expense.

We manage our interest rate exposure with a focus on reducing (i) our overall debt balance; and (ii) exposure to changes in interest rates. When considered appropriate, we may use derivatives such as interest rate swaps to manage our interest rate exposure.

Price Risk

Our Group is exposed to equity securities price risk because of investments in listed securities held by us which are classified in the consolidated statements of financial position as fair value through other comprehensive income.

As at 31 March 2012, 2013 and 2014, and as at 30 September 2014, if the share prices of our listed investments to increase or decrease by 5% and all other variables were held constant, the impact on our Group's equity would increase or decrease by approximately ¥7 million, ¥45 million, ¥79 million and ¥73 million, respectively.

Credit Risk

Credit risk arises mainly from cash deposited at banks, trade receivables, deposits and other receivables, financial assets at fair value through profit or loss and through other comprehensive income.

In respect of cash deposited at banks and financial assets at fair value through profit or loss and through other comprehensive income, the credit risk is considered to be low as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Approximately 99% of our Groups revenue is received in cash. Our Group's credit risk mainly arises from vending machine income receivable from vending machines providers representing approximately 1% of our receivables.

As at 31 March 2012, 2013 and 2014 and as at 30 September 2014, top five customers which are all vending machine providers of our Group accounted for approximately 58%, 53%, 56% and 60%, respectively, of the trade receivables of our Group. We have set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers. Management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. Our historical records in collection of trade and other receivables confirmed that adequate provision for uncollectible receivables has been made in the Financial Information.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of facilities from banks and the ability to repay such debts.

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets and receivables; and long term financing including long-term borrowings. The Group aims to maintain flexibility in funding by keeping sufficient bank balances and committed credit lines available.

See the table included in note 3.1(c) of the Accountant's Report in Appendix I for an analysis of our non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying balances as the impact of discounting is not significant.

DIVIDEND POLICY

During the Track Record Period we declared and paid dividends in the amount of ¥110 million, ¥110 million, ¥183 million and ¥183 million for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014, respectively.

Our distribution of dividends will be subject to the availability of Distributable Amount and compliance with applicable laws and regulations in Japan and Hong Kong. We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends will be formulated by our Board at their discretion. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital expenditure requirements, the size of our Distributable Amount (calculated according to the relevant provision under the Japan Companies Act), our Articles, the Japan Companies Act and any other applicable Japan law and regulations (as discussed below) and other factors that our Directors may consider relevant. See "Appendix V — Summary of Our Articles of Incorporation and Japan Corporation Law — 6. Dividends and distributions". We currently intend to recommend dividends totalling approximately 30% of our consolidated net profit after tax attributable to our shareholders (calculated in accordance with IFRS) from the year ending 31 March 2016 onwards, to be distributed on an interim and year-end basis. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements, availability of Distributable Amount and any other conditions that our Directors may deem relevant. There is no assurance that dividends of any amount will be declared or distributed in any year. You should note that historical dividend distributions are not indicative of our future dividend policy.

Pursuant to the Japan Companies Act and our Articles of Incorporation, through a resolution of the Board of Directors unless such dividend is proposed to be paid in kind (other than Shares, bonds (including convertible bonds) and SARs issued by our Company, which the Companies Act prohibits) without giving Shareholders the right to demand distribution in cash (in which case a special Shareholder resolution is required)), we may declare dividends to our Shareholders subject to a limit equal to the Distributable Amount. Pursuant to the Japan Companies Act and the relevant Ordinance of the Ministry of Justice of Japan, the Company's Distributable Amount is calculated based on the retained earnings recorded in the Company's financial statements prepared in accordance with JGAAP (rather than IFRS) with certain adjustments (including the deduction of the book value of any treasury Shares held by our Company). See "Appendix V — Summary of Our Articles of Incorporation and Japan Corporation Law — 6. Dividends and distributions — Distributable Amounts" in Appendix V. Going forward, Shareholders that are entitled to receive cash dividends (if any) from our Company will have the option of receiving their entitlements in either Japanese Yen or Hong Kong dollars, except for CCASS Beneficial Owners, who will receive dividend payments in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable. Scrip dividends in the form of Shares, bonds (including convertible bonds) or SARs issued by our Company are prohibited under the Japan Companies Act.

We are required under Japan law to withhold tax prior to payment of dividends. Our Tax Adviser has advised us that shareholders interested in less than 3% of our total number of issued Shares that are non-residents individuals of Japan or non-Japanese corporations without a permanent establishment in Japan are subject to Japanese withholding tax of 15.315% for any dividend distributions due and paid on or before 31 December 2037. Shareholders holding 3% or more of our total number of issued Shares are subject to a withholding tax in Japan of 20.420% on or before 31 December 2037. Shareholders who are either residents in Hong Kong or corporations established in Hong Kong without any permanent establishment in Japan are entitled to a reduced withholding tax rate of not exceeding 10% (or not exceeding 5% for corporate Shareholders who are interested in 10% or more of our total number of issued Shares for six consecutive months ending on the record date for dividend distribution) under the Hong Kong-Japan Tax Treaty. See "Key Japan Legal and Regulatory Matters — E. Taxation — 1. Withholding Tax on Dividend Payment" for further information on Japanese withholding taxes.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the shareholders of our Company as of 30 September 2014 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the Global Offering been completed as at 30 September 2014 or at any future dates.

	Audited consolidated net tangible assets of our Group attributable to the shareholders of the Company as at 30 September 2014 (Note 1)	**Estimated net proceeds from the Global Offering (Note 2)**	**Unaudited pro forma adjusted net tangible assets attributable to the shareholders of the Company**	**Unaudited pro forma adjusted net tangible assets per Share (Notes 3, 5)**	
	¥ million	**¥ million**	**¥ million**	**¥**	**HK$**
Based on an Offer Price of HK$1.10 per Share	20,707	4,087	24,794	20.7	1.37
Based on an Offer Price of HK$1.28 per Share	20,707	4,884	25,591	21.4	1.41

Notes:

(1) The unadjusted audited consolidated net tangible assets of our Group attributable to the shareholders of the Company as at 30 September 2014 is extracted from the accountant's report set out in Appendix I to this Prospectus, which is based on the audited consolidated net assets of our Group attributable to the shareholders of our Company as at 30 September 2014 of ¥20,879 million with an adjustment for the intangible assets as at 30 September 2014 of ¥172 million.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$1.10 and HK$1.28 per Share, respectively, after deduction of the underwriting fees and other related expenses borne by the Company (excluding approximately ¥226 million listing expenses which have been incurred as of 30 September 2014) and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,195,850,460 Shares were in issue assuming that the Global Offering have been completed on 30 September 2014 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

(4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 30 September 2014.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Japanese Yen are converted into Hong Kong dollars at the rate of HK$1.00 to ¥15.15.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had our Shares been listed on the Stock Exchange.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this Prospectus, including in "Summary — Recent Developments", our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 30 September 2014 (the date of the latest audited consolidated financial information of our Group) and up to the date of this Prospectus. Also, as far as our Directors are aware, there has also been no material change in the general economic or market conditions in Japan that would have a material and adverse impact on our business operation or financial condition since 30 September 2014 to the date of this Prospectus.