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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OVERVIEW

Immediately upon completion of the Global Offering, members of the Taniguchi Consortium will collectively be interested in approximately 69.5% of our total number of issued Shares. Because each member of the Taniguchi Consortium is acting in concert with each other, they will together be entitled to exercise and control the voting power in the general meetings of our Company attached to these Shares and will collectively be regarded as our Controlling Shareholders under the Listing Rules. For further details of the identities of, and relationship among, each member of the Taniguchi Consortium as well as their respective shareholdings in our Company, see “History and Corporate Development – Shareholding Structure – Taniguchi Consortium”.

The Taniguchi Consortium comprises (i) our Chairman, who, as an Executive Director and our Chief Executive Officer, is chiefly responsible for our overall business strategy and operational direction; (ii) Mr. Tatsuo TANIGUCHI (谷口龍雄), Mr. Masataka TANIGUCHI (谷口晶貴), Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as Mr. JEONG Jungwung), Mr. Mitsuhiro TEI (鄭允碩), Mr. Motohiro TEI (鄭元碩), Ms. Eijun TEI (鄭盈順), Ms. Rika TEI (鄭理香) and Ms. Noriko KANESHIRO (金城徳子), each being a family member of our Chairman; and (iii) Jukki Limited\* (有限会社十起), Densho Limited\* (有限会社伝承), Echo Limited\* (有限会社エコー), Daiki Limited\* (有限会社大喜), Hokuyo Kanko Limited\* (有限会社北陽観光) and KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA), each being an investment holding entity owned and controlled by family members of our Chairman having no business activity. See “Directors and Senior Management – Board of Directors – Executive Director” for the biographical information and experiences of our Chairman.

None of our Controlling Shareholders is interested in any public company other than our Company.

### ***Controlling Shareholders acting in concert***

By virtue of their intricate family and shareholding relationship, each member of the Taniguchi Consortium is an associate of each other under the Listing Rules. In addition, over the course of our business history, each member of the Taniguchi Consortium has, in exercising and implementing the management and operations of our subsidiaries, been acting in concert with each other. Because we were a group of private entities in the past, the acting in concert arrangements were not formalised in writing.

On 9 December 2014, each member of the Taniguchi Consortium executed a confirmatory deed (the “*Deed of AIC Confirmation*”), whereby they have confirmed their acting in concert arrangements in the past as well as their intention to continue to act in the above manner upon Listing to consolidate their control over our Group until and unless the Deed of AIC Confirmation

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is terminated in writing. The Deed of AIC Confirmation covers our Company and all of our subsidiaries and contains the following salient terms:

With respect to the businesses of our Company and our subsidiaries, the members of the Taniguchi Consortium have, pursuant to the Deed of AIC Confirmation, confirmed to each other that, for the entire duration when they were/are contemporaneously the shareholders of our Company and/or our subsidiaries:

- (a) they have agreed to, and shall continue until the termination of the Deed of AIC Confirmation to, consult each other and reach an unanimous consensus among themselves on such matters being the subject matters of any shareholders' resolution, prior to putting forward such resolution to be passed at any shareholders' meeting of our Company and our subsidiaries, and have historically voted on such resolutions in the same way;
- (b) they have centralised, and shall continue until the termination of the Deed of AIC Confirmation to centralise, the ultimate control and right to make final decisions with respect to their interests in the businesses and projects of our Company and our subsidiaries;
- (c) they have operated, and shall continue until the termination of the Deed of AIC Confirmation to operate, our Company and our subsidiaries as a single business venture.

On the basis of the provisions under the Deed of AIC Confirmation, members of the Taniguchi Consortium are regarded as persons acting in concert with each other within the meanings under the Takeovers Code, and are deemed to be entitled to exercise the voting powers attached to the Shares owned by each of them in the general meetings of our Company.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors are satisfied that our Group can function, operate and carry on our business, and is financially and operationally, independent of our Controlling Shareholders and their respective close associates based on the following reasons:

#### **1. No competition and clear delineation of business**

Our Directors, including our Independent Non-executive Directors, confirm that, none of our Controlling Shareholders, our Directors or any of their respective close associates have interests in any businesses other than our business which compete, or are likely to compete, either directly or indirectly, with our business and would require disclosure under Rule 8.10 of the Listing Rules.

Apart from their respective interests in our Group, which is their principal business venture, the only other material business interest of our Controlling Shareholders is the Excluded Group, which comprises NI and NUSA. As at the Latest Practicable Date, members of the Taniguchi Consortium were collectively interested in approximately 93.2% of the total number of shares issued by NI. NUSA is a wholly-owned subsidiary of NI.

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NI was incorporated in September 2014 as part of our Reorganisation as the holding entity of the Excluded Group. NUSA was incorporated in July 2014 initially as a wholly-owned subsidiary of Niraku Corporation but was transferred to NI as part of our Reorganisation. NI and NUSA were excluded from our Group as they engage in business activities that are completely unrelated to, and clearly delineated from, our principal business activities of pachinko and pachislot hall operations. See “History and Corporate Development – Corporate Structure and Development – Reorganisation” for the restructuring steps undergone by our Group as part of our Reorganisation.

Aside from the Las Vegas Property as detailed below, it is currently expected that NI will act as the holding entity of the prospective business ventures, if any, of the Taniguchi Consortium. These business ventures, if any, for which the Taniguchi Consortium had no concrete plan as at the Latest Practicable Date, will be subject to the Deed of Non-Competition and will not compete, directly or indirectly, with our pachinko hall operations.

### ***Las Vegas Property***

NI is an investment holding company with no business interest other than NUSA. The only business venture of NUSA is a 10% interest in a limited liability company incorporated in the state of Delaware in the U.S. acquired in February 2015. This company is a property holding company of the Las Vegas Property, which is a piece of land and the premises of a hotel and casino located in downtown Las Vegas, Nevada, the U.S.

The Las Vegas Property is leased to the operator of the said hotel and casino at a combination of fixed and contingent rent. According to the information provided by our Controlling Shareholders, the revenue of the Las Vegas Property was approximately USD12.9 million, USD35.7 million and USD31.9 million respectively, for the years ended 31 December 2011 and 2012 and the ten months ended 31 October 2013, and its net income (loss) was approximately (USD11.0 million), USD3.4 million and USD1.5 million, respectively, for the same periods. These financial figures are unaudited and prepared by an independent accountant appointed for the purpose of financial diligence in relation to NUSA’s investment into the Las Vegas Property.

NUSA acquired the 10% interests in the Las Vegas Property in February 2015 from an independent third party of our Company at a consideration of approximately USD8 million paid in cash.

As at the Latest Practicable Date, we did not operate any casino or gambling facility inside or outside Japan and had no operation in the U.S. Whilst we are the operator and owner of a hotel in Koriyama City (郡山市), Fukushima Prefecture (福島県), this hotel has no co-relation with casino operation and is located outside the U.S. As such, the Las Vegas Property is clearly delineated from our business because of their clearly separate and distinct business nature and different geographical locations.

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In particular, 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. Notwithstanding that we will consider progressively venturing into the operation of casinos in Japan if and when gambling is legalised in Japan, the Las Vegas Property is not expected to compete, either directly or indirectly, with us as our prospective future casino operations (if materialised) are expected to be conducted within Japan. We have no current intention to expand anywhere outside Japan. Any of our future business ventures will be subject to the Deed of Non-Competition.

The Excluded Group currently has no other business interest other than the Las Vegas Property.

### **2. Independence of management and directorship**

Our Company has a Board and members of senior management that function independently from our Controlling Shareholders and their respective close associates. Our Board is comprised of one Executive Director and four Independent Non-executive Directors. Our senior management consists of four Executive Officers and two other members. On the basis of the following reasons, our Directors believe that our Directors, Executive Officers and members of our senior management are able to manage our business independently of our Controlling Shareholders:

- (i) with four Independent Non-executive Directors out of a total of five Directors in our Board, which exceeds the requirements under the Listing Rules, there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving a conflict of interest and protect the interests of our independent Shareholders;
- (ii) all Executive Officers and members of our senior management are full-time employees of our Group and most have, for the entire or substantially the entire Track Record Period, undertaken senior management supervisory responsibilities in our business. The responsibilities of our senior management team include managing operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategies of our Group. This ensures the independence of the daily management and operations of our Group from those of our Controlling Shareholders;
- (iii) instances of actual or potential conflict have been identified (by virtue of the connected transactions regime under the Listing Rules) and minimised (by virtue of the Deed of Non-Competition);
- (iv) each of our Directors is aware of his fiduciary duties as a Director of our Company, which require, among other things, that he acts for the benefit and in the best interests of our Shareholders as a whole and does not allow any conflict between his duties as a Director and his personal interests to affect the performance of his duties as a Director;

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- (v) notwithstanding that our Chairman and Mr. Akinori OHISHI (大石明德), an Executive Officer, are both directors of NI and NUSA, they have no on-going executive or non-executive duties in the Las Vegas Property. In particular, the fellow shareholder of NUSA in the Las Vegas Property has the sole and exclusive right to manage the business and affairs of the Las Vegas Property and to make all related decisions under the relevant investment agreements. Hence, our Chairman and Mr. Akinori OHISHI (大石明德) will not be involved in the management of the Las Vegas Property, NI or NUSA and will devote their full-time capacity to take care of our Group's interests. All of our Executive Officers and members of our senior management will devote full-time capacity to our Group;
- (vi) there will be no continuing connected transaction between our Group and our Controlling Shareholders upon Listing. Any connected transactions between our Company and companies controlled by our Controlling Shareholders will be subject to the rules and regulations under the Listing Rules including rules requiring announcement, reporting and independent Shareholders' approval (where applicable);
- (vii) all of the businesses that are related to the operation of pachinko halls held by our Controlling Shareholders have been consolidated into our Group as part of our Reorganisation. Therefore, there is no competition that would adversely affect the management independence of our Group; and
- (vii) a number of corporate governance measures are in place to avoid any potential conflict of interests between our Company and our Controlling Shareholders, and to safeguard the interests of our independent Shareholders. See "— Corporate Governance Measures" in this section below for details.

Save and except for our Chairman's and Mr. Akinori OHISHI (大石明德)'s directorship in NI and NUSA, our Directors have confirmed that there is no overlap in the directors and senior management between our Company and our Controlling Shareholders and/or their respective close associates.

### 3. Operational independence

Our Company makes business decisions independently. On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent of our Controlling Shareholders and their respective close associates:

- (i) our Company is not reliant on trademarks owned by our Controlling Shareholders, or other companies controlled by our Controlling Shareholders;
- (ii) our Group is the holder of all relevant licenses material to the operation of our business and has sufficient capital, equipment and employees to operate our business independently;
- (iii) our Company has our own administrative and corporate governance infrastructure (including our own accounting, legal and human resources departments);

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- (iv) all of the properties used as our principal place of business, offices premises and pachinko halls are either self-owned or leased from independent third parties by our Company or our subsidiaries;
- (v) all external services and/or procurement required by our Company or our subsidiaries are provided by and, if needed, can be easily sourced from, independent third parties; and
- (vi) our Company has established a set of internal control procedures to facilitate the effective operation of our business.

Based on the above-mentioned arrangements, our Directors are of the view that our Company will be able to operate independently of our Controlling Shareholders and their respective close associates.

#### **4. Related-party transactions between our Group and entities controlled by our Controlling Shareholders**

During the Track Record Period, certain entities controlled by our Controlling Shareholders entered into related party transactions with our Group in the ordinary course of our business and on normal commercial terms. Such related party transactions are disclosed in Note 35 to “Appendix I – Accountant’s Report”. Such transactions, if continued after the Listing, will constitute continuing connected transactions of our Company under the Listing Rules.

Our Directors confirm that all non-trade related party transactions with our Controlling Shareholders and their respective close associates will be discontinued upon Listing.

#### **5. Financial independence**

Our Directors are of the view that our Group will be financially independent of our Controlling Shareholders and any of their respective close associates upon Listing. All loans, advances and balances due to and from our Controlling Shareholders and their respective close associates (e.g., the shareholder loan) will be fully settled and that all share pledges and guarantees provided by our Controlling Shareholders and their respective close associates on our Group’s borrowing will be fully released upon Listing. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing. Our Directors are satisfied that we are capable of conducting our business independently of any of our Controlling Shareholders (including their respective close associates) after our Company is listed on the Stock Exchange.

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### DEED OF NON-COMPETITION

#### Non-competition

For the purpose of the Listing, our Controlling Shareholders (as covenantors) and our Company have entered into the Deed of Non-Competition on 16 March 2015, pursuant to which each of our Controlling Shareholders has irrevocably undertaken to our Company (for itself and on behalf of each other member of our Group) that he/she/it would not, and would procure that his/her/its close associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on his/her/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any Restricted Business (whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person).

“*Restricted Business*” stated in the Deed of Non-Competition refers to any activity or business which competes, or is likely to compete, either directly or indirectly, with:

- (a) the pachinko and pachislot hall operations in Japan referred to in “Business”;
- (b) the operation of restaurants serving Spanish or Western cuisine in general in Japan;
- (c) operation of hotel(s) in Fukushima Prefecture (福島県), Japan; and
- (d) any other business from time to time conducted, engaged in or invested in by any member of our Group or which any member of our Group has otherwise publicly announced its intentions to conduct, enter into, engage in or invest in on the Stock Exchange pursuant to the Listing Rules and the SFO.

Each of our Controlling Shareholders has also undertaken to our Company the following:

- (a) to provide all information requested by our Company (including a quarterly update on their current business ventures in writing) which is necessary for the annual review by our Independent Non-executive Directors and the enforcement of the Deed of Non-Competition or a negative confirmation, as appropriate; and
- (b) to make an annual declaration on compliance with his/her/its undertaking under the Deed of Non-Competition in the annual reports of our Company as our Independent Non-executive Directors think fit and/or as required by the relevant requirements under the Listing Rules.

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### New Opportunity

Our Controlling Shareholders have further undertaken to procure that, during the restricted period, any business investment or other commercial opportunity which competes or is likely to compete either directly or indirectly with the Restricted Business (the “*New Opportunity*”) identified by or offered to him/her/it or any entity controlled by him/her/it, is first referred to us in the following manner:

- (a) the relevant Controlling Shareholder is required to refer, or to procure the referral of, the New Opportunity to us, and shall give written notice (the “*Offer Notice*”) to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs; and
- (b) upon receiving the Offer Notice, our Company shall seek approval from a Board committee (comprising, among others, all the Independent Non-executive Directors who do not have an interest in the New Opportunity) (the “*Independent Board*”) as to whether to pursue or decline the New Opportunity. Any Director who has actual or potential interest in the New Opportunity shall not be a member of the Independent Board and shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, or count towards the quorum for, any meeting or part of a meeting convened to consider such New Opportunity;
  - (i) the Independent Board shall consider the financial impact of pursuing the New Opportunity offered, whether the nature of the New Opportunity is consistent with our Group’s strategies and development plans and the general market conditions; if appropriate, the Independent Board may appoint independent financial and legal advisers or other professional experts to assist at the cost of our Company, the decision-making process in relation to such New Opportunity;
  - (ii) the Independent Board shall, within 20 business days of receipt of the written notice referred to in (a) above, inform the relevant Controlling Shareholder in writing on behalf of our Company its decision whether to pursue or decline the New Opportunity. Such notice period can be extended if mutually agreed in writing;
  - (iii) the relevant Controlling Shareholder shall be entitled but not obliged to pursue such New Opportunity if he or she or it has received a notice from the Independent Board declining such New Opportunity or if the Independent Board failed to respond within such 20 business days period (or the extended period, where applicable) pursuant to (b)(ii) above; and



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- (iv) if there is any material change in the nature, terms or conditions of such New Opportunity pursued by the relevant Controlling Shareholder, he or she or it shall refer such New Opportunity as so revised to our Company in the manner as outlined in the Deed of Non-Competition as if it were a New Opportunity.

Our Independent Board will also review, on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders, the results of which will be disclosed in our annual reports. Furthermore, the Independent Board may appoint financial advisors or professional experts to provide advice, at the cost of our Company, in connection with whether to take up any New Opportunity.

### Exceptions

The Deed of Non-Competition does not apply to:

- (a) any interests in the shares of any member of our Group since the business of such member is not in competition with our Group. Moreover, none of our Controlling Shareholders currently has any intention to hold shares directly in any member of our Group; or
- (b) interests in the shares of a company other than our Group which shares are listed on a recognised stock exchange provided that:
  - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
  - (ii) the total number of the shares held by the relevant Controlling Shareholder and/or his/her/its close associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Controlling Shareholder and his/her/its close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company (together, where appropriate, with its close associates) whose shareholdings in that company should be more than the total number of shares held by the Controlling Shareholder and his/her/its close associates in aggregate; or
- (c) any business in relation to the leasing of property interests (commercial, residential or otherwise) to third party tenants.

The "*restricted period*" stated in the Deed of Non-Competition refers to the period during which (i) the Shares of our Company remain listed on the Stock Exchange; (ii) the relevant Controlling Shareholder and his/her/its close associate holds an equity interest in our Company; and (iii) the relevant Controlling Shareholder and/or his/her/its close associates jointly or severally (whether pursuant to the Deed of AIC Confirmation or not) are entitled to exercise or control the

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exercise of not less than 30% in aggregate of the voting power in the general meetings of our Company. In other words, if our Company was no longer listed on the Stock Exchange or the relevant Controlling Shareholder came to hold less than 30% of the Shares then issued, the Deed of Non-Competition would not apply. We believe the 30% threshold is justifiable as it is equivalent to the thresholds applied under the Listing Rules and the Takeovers Code for the concept of “control”.

### CORPORATE GOVERNANCE MEASURES

Our Company will further adopt the following measures to manage the conflict of interests arising from the possible competing business of our Controlling Shareholders and to safeguard the interests of our independent Shareholders:

- (i) in preparation for the Listing, our Company has amended our Articles to comply with the Listing Rules. In particular, our Articles provide that, except for certain exceptions permitted under the Listing Rules or the Stock Exchange, a Director shall not vote on any Board resolution approving any contract in relation to which he has a material interest, nor shall such Director be counted in the quorum present at that meeting. Furthermore, a Director who holds directorship and/or senior management positions in our Controlling Shareholders or any of its close associates (other than our Company or any member of our Group) shall not vote on any Board resolution regarding any transactions proposed to be entered into between any member of our Group and our Controlling Shareholders or any of its close associates (other than our Company or any member of our Group), nor shall such Director be counted in the quorum present at such meeting;
- (ii) we have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser, which will provide advice and guidance to us with respect to compliance with the applicable laws and the Listing Rules, including but not limited to various requirements relating to Directors’ duties and internal controls;
- (iii) our Independent Non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- (iv) each of our Controlling Shareholders has undertaken to provide all information necessary for the annual review by our Independent Non-executive Directors and the enforcement of the Deed of Non-Competition;
- (v) we will disclose decisions on matters reviewed by our Independent Non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition either through an annual report, or by way of announcement to the public;
- (vi) each of our Controlling Shareholders will make an annual declaration of compliance with the Deed of Non-Competition in the annual reports of our Company;

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- (vii) the management structure of our Group includes our Audit Committee, our Remuneration Committee and our Nomination Committee, the written rules of each of which will require them to be alert to prospective conflict of interests and to formulate their proposals accordingly;
- (viii) pursuant to the Corporate Governance Code set out in Appendix 14 of the Listing Rules, our Directors, including our Independent Non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's costs;
- (ix) each of the Controlling Shareholders undertakes to keep us informed and shall procure his/her/its respective close associates to keep us informed, of new business opportunities and to provide all information reasonably required by the Independent Non-executive Directors to assist them in their consideration of any new business opportunity; and
- (x) our Independent Non-executive Directors will also review, on an annual basis, the implementation of the Deed of Non-competition and any decisions in relation to new business opportunities referred to us, and state their basis and reasons in our Company's annual reports.

Our Company expects to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules which sets out principles of good corporate governance in relation to, among others, Directors, Chief Executive Officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communication with our Shareholders. Our Company will state in our interim and annual reports whether we have complied with such code, and will provide details of, and reasons for, any deviation from it in the corporate governance reports attached to our annual reports.

In the event that our Company decides not to proceed with any particular projects or business opportunities and that our Controlling Shareholders decides to proceed with such a project or business opportunity, we will announce such decision by way of an announcement setting out therein the basis for us not taking the project or the business opportunity.