株式会社ニラク・ジー・シー・ホールディングス

NIRAKU GC HOLDINGS, INC.*

(Incorporated in Japan with limited liability 於日本註冊成立的有限公司)

Stock Code 股份代號 : 1245

2016

ANNUAL REPORT 年報

* For identification purpose only
僅供識別

Contents

Corporate Profile

株式会社ニラク・ジー・シー・ホールディングス NIRAKU GC HOLDINGS, INC.* ("NIRAKU" or the "Company", Hong Kong stock code: 1245) is a leading pachinko hall operator in Fukushima Prefecture in Japan, and have over 60 years of pachinko hall operation experience. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 April 2015 (the "Listing Date").

Since the opening of the first pachinko hall in 1950, NIRAKU has been aiming in bringing enjoyable experience to customers, which forms our slogan of "Happy Time, Creation".

NIRAKU has a strong pachinko hall network with 56 halls at present, stretching from Tokyo Metropolitan Area to Northeast Honshu, equipped with over 28,000 pachinko and pachislot machines serving customers in ten prefectures in Japan.

* *For identification purpose only*

Corporate Information and Information for Investors

CORPORATE INFORMATION	
Executive Director	Mr. Hisanori TANIGUCHI *(Chairman)* (also known as Mr. JEONG Seonggi
Independent Non-Executive Directors	Mr. Hiroaki MORITA Mr. Norio NAKAYAMA Mr. Masaharu TOGO Mr. Hiroaki KUMAMOTO
Audit Committee	Mr. Hiroaki KUMAMOTO *(Committee Chairman)* Mr. Hiroaki MORITA Mr. Norio NAKAYAMA
Remuneration Committee	Mr. Norio NAKAYAMA *(Committee Chairman)* Mr. Hiroaki MORITA Mr. Hisanori TANIGUCHI
Nomination Committee	Mr. Hiroaki MORITA *(Committee Chairman)* Mr. Masaharu TOGO Mr. Hisanori TANIGUCHI
INFORMATION FOR INVESTORS	
Principal Bankers	Mizuho Bank, Ltd. Sumitomo Mitsui Bank Corporation The Toho Bank, Ltd.
Auditor	PricewaterhouseCoopers
Compliance Adviser	Shenwan Hongyuan Capital (H.K.) Limited
Legal Adviser	Deacons
Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Principal Place of Business in Hong Kong	505, 5/F Hutchison House, 10 Harcourt Road, Central, Hong Kong
Headquarter in Japan and Registered Office	1-1-39 Hohaccho Koriyama-shi, Fukushima, Japan 963-8811
Stock Code	1245
Website	www.ngch.co.jp
Investor Relation Inquiry	e-mail: niraku@sprg.com.hk

Financial and Operational Highlights

The following table summarises the results of the Group for the financial years ended 31 March 2016, 2015, 2014, 2013 and 2012.

	For the year ended 31 March						
	2016		2015		2014	2013	2012
	¥ million	**HK$ million**	¥ million	HK$ million	¥ million	¥ million	¥ million
Gross pay-ins	**158,095**	**10,881**	175,592	11,350	236,449	242,217	224,968
Gross pay-outs	**(127,900)**	**(8,803)**	(143,473)	(9,274)	(203,455)	(210,298)	(195,340)
Revenue from pachinko and pachislot business	**30,195**	**2,078**	32,119	2,076	32,994	31,919	29,628
Other revenue	**800**	**55**	767	50	853	832	724
Revenue	**30,995**	**2,133**	32,886	2,126	33,847	32,751	30,352
Hall operating expenses	**(25,207)**	**(1,735)**	(22,982)	(1,486)	(22,798)	(21,909)	(20,609)
Administrative and other operating expenses	**(4,815)**	**(331)**	(5,336)	(345)	(4,636)	(4,126)	(3,319)
Profit before income tax	**633**	**44**	4,994	323	6,008	6,485	6,307
Profit attributable to the shareholders of the Company	**181**	**12**	3,030	196	3,698	3,765	3,329
Earnings per share (expressed in Japanese Yen or Hong Kong dollar)	**0.15**	**0.01**	3.38	0.19	4	967	855
Overall revenue margin	**19.1%**	**–**	18.3%	–	14.0%	13.2%	13.2%
Net profit margin	**0.6%**	**–**	9.2%	–	10.9%	11.5%	11.0%

Financial and Operational Highlights

	As at 31 March						
	2016		2015		2014	2013	2012
	¥ million	**HK$ million**	¥ million	HK$ million	¥ million	¥ million	¥ million
Current assets	**15,597**	**1,073**	14,734	952	11,969	9,860	14,848
Current liabilities	**8,287**	**570**	11,120	719	8,951	10,737	16,012
Net current assets/(liabilities)	**7,310**	**503**	3,614	234	3,018	(877)	(1,164)
Total assets	**52,257**	**3,596**	50,977	3,295	46,905	42,194	45,183
Total assets less current liabilities	**43,970**	**3,026**	39,857	2,576	37,954	31,457	29,171
Gearing ratio	**72.4%**	**–**	92.4%	–	91.7%	100.3%	91.7%

CURRENCY TRANSLATIONS

For the purpose of illustration only and unless otherwise specified in this annual report, certain amounts denominated in Japanese Yen ("¥") are translated into Hong Kong dollar ("HK$") at the rates (as the case may be) described below:

1. ¥14.53 to HK$1.00, the exchange rate prevailing on 31 March 2016 (i.e. the last business day in March 2016);

2. ¥15.47 to HK$1.00, the exchange rate prevailing on 31 March 2015 (i.e. the last business day in March 2015).

No representation is made that the amounts in Japanese Yen could have been, or could be, converted into Hong Kong dollar or vice versa, at such rates or at any other rates on such date or on any other dates.

Chairman's Statement

To our shareholders

Founded since 1950, we have sought to provide happy, fun and interesting entertainment ("Happy Time Creation") for people in the Tohoku region with our pachinko business. As at date of this annual report, we operate 56 pachinko halls, mainly in the Tohoku region.

Pachinko hall operation is the core of our business and this will remain the focus of the Group in the future. The philosophy as "Happy Time Creation" is shared across all levels of the Group, from top management to general staff and is embedded in our vision and mission statement.

Aside from this philosophy, we embrace hospitality with our customers and nurture this philosophy in running our businesses. We deliver entertainment by helping people have fun in the region. Not only confronting to the pachinko business, we are committed to provide happy time to people in different business segments over the world.

To bring this to live, we believe that the most important of all is the growth of our employees, as we continue to mobilise their abilities. All of our employees providing services are deeply embedded in our ongoing philosophy and our values, and all employees, including top management, are united in tackling the challenges of diverse business environments and endure to evolve and move forward.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The severe business environment surrounding the Group persists, and the Group's core business, pachinko operation, continues to shrink. In the first half of the financial year 2016, we reckoned the decline in revenue was caused by the decrease in hall traffic in the Kanto region, and such financial impact had seen in the interim report for the period ended 30 September 2015. As such, managing further decline in customer visits became our prominent task in the second half of the year. We have implemented several measures such as to increase the number of low playing cost machines, introduce more new machines, and optimise revenue margin ratio coping with different market conditions of each hall. As a result, at the end of March 2016, the machine utilisation rate recovered from bottoming out in the previous year, up to 108% and 109% in pachinko and pachislot machines, respectively. The Kanto area, in particular, made a notable recovery in terms of machine utilisation rate with both pachinko and pachislot machines at 124% over the bottomed-out rate.

As at 31 March 2016, we operate 55 pachinko halls. In April 2015, we opened two new halls, Niraku Shibukawashiroi in Gunma prefecture and Kasama in Ibaragi prefecture. On the other hand, due to poor performance of Ootaumeyashiki and Nakanoshinbashi halls, we decided to close them in June 2015 and September 2015, respectively, to increase operation efficiency.

Chairman's Statement

Despite increased revenue from the new halls and the higher machine utilisation rate, these additional revenues did not offset the decline in total revenue due to the drop of customers and lower revenue generated by higher rate of low playing cost machines. Hence our consolidated total revenue was decreased to ¥30,995 million, decreased by 5.8% as compared to prior year. Our investment in increasing the machine utilisation rate and the initial public offering expenses had further dampened our consolidated net profit to ¥181 million, a 94.0% drop as compared to last year. The investment in low playing cost machines made in current year and other measures towards optimising the revenue margin were the initiatives undertaken to counteract declining customers. These are measures to improve our operating results in the future and have been proven successful. Positive effects from these improvement measures are expected to reflect in operating results for the coming financial year.

Looking at the financial aspect, following the review of borrowing conditions of the entire Group in December 2015, our Company based financing is transited to a group financing system from April 2016, and this will reduce repayments and interest burden across the Group as a whole.

MARKET REVIEW

The environment of our pachinko business remains to look bleak in 2016. According to Entertainment Business Institute report released on 13 April 2016, the market scale for 2016 is forecast to decrease by 10% to 15% compared to the previous year; and the population of pachinko participants is estimated to decrease by 2% to 5% in 2016 as compared to 2015. As at 31 December 2015, the number of pachinko halls across Japan was 11,310, a decline of 317 stores compared to the previous year (National Police Agency statement).

During the year ended 31 March 2016, advocation of pachinko machines meeting new standards with reduced gambling element was promoted, following the voluntary regulation of high gambling property machines across the pachinko industry, as high-gambling property machine is one of the factors in the decrease in the population of pachinko participants. Pachinko machines conforming these new standards are challenging to generate revenue like the high-gambling pachinko machines that have been our traditional revenue source, and the overall revenue is expected to decrease. With the new standards effecting from April 2016, the consumer reception to these pachinko machines will remain to be seen and unclear. On the whole, the rate of revenue growth is not expected to be seen despite the increased cost of replacing these machines The outlook is expected to be a difficult year for pachinko hall operators.

BUSINESS OUTLOOK FOR 2017

Amid the severe business environment for our core business of pachinko services, the entire Group will continue to strive working on the following issues.

Overhaul of profit structure

Our profit structure, to a certain extent, is focused on revenue generated from high-gambling machines; while significant revenue growth in the future is not expected to exceed previous levels. We must ensure our profitability while properly maintaining revenue margin and undertaking appropriate steps in replacement of machines to increase attractiveness to customers. To this end, we will continue to focus on reducing unnecessary costs and raising the productivity of each employee by reviewing store operations. These efforts are essential in order to respond to environmental changes in the future of the pachinko business, and we position these as our first priority.

Chairman's Statement

Strengthening existing halls

In each hall, we will work to maintain the quality of the machines that comply with laws and regulations, to ensure cleanliness, and to further improve our services with our customers. With regard to improvement of services, we will strive to offer more flexible services to suit the circumstances of each region. We are making proactive efforts to enhance general prizes variety, which is a factor in customer's choice of store. Starting from the current financial year, we have and will continue to introduce an online prize system, whereby customers can select a greater variety of general prizes from online shopping sites.

Co-marketing with local communities

Given the shrinking population of participants in the pachinko market, each of our outlets must ensure its sustainability by being the preferred choice of the customers in its local area. To do so, it is essential that we consider the awareness of each store to local residents and how we can co-exist as a member in the local community. From the current financial year, we explore in building a positive image of NIRAKU stores and undertaking marketing activities to subtlety acquire NIRAKU fans and build the NIRAKU brand, thereby promoting an "active local engine." In addition to conventional corporate social responsibilities activities, these measures will assist each store in acting as a nexus for a variety of entertainment activities in the region, serving as a branding activity that will deepen ongoing ties with the region.

BUSINESS DEVELOPMENT

With regard to the pachinko business, in April 2016 we opened the Taiheiji pachinko hall in Fukushima, which is the largest in Tohoku region with a total number of 1,280 machines. The Taiheiji pachinko hall is our 21st hall in Fukushima Prefecture, and we have every confidence it will contribute to establishing a solid position in this prefecture.

Chairman's Statement

In addition, the Group aims to connect hospitality with people in the region through its ongoing pachinko business with the entertainment that comes from the concept of helping people have fun, and extend to provide happy times to people in diverse segments worldwide not only limited to the pachinko business. To echo with this concept, on 19 May 2016, we entered into a sales and purchase agreement with Coastal Heritage Limited to acquire 66.7% shares of Nha Trang Holdings Limited ("Nha Trang"), a company owns and operates five Vietnamese restaurants under the brand "Nha Trang" and two under the brand "BEP"; as well as a Pinot Duck restaurant, all of them are situated in Hong Kong. We plan to expand these Vietnamese restaurants in Hong Kong and developing them overseas in the future.

APPRECIATION

Five years have now passed since the Great East Japan Earthquake of 2011. The disaster-affected Tohoku region has bounced back powerfully, transitioning to a more concrete stage on the road to reconstruction. As NIRAKU is based in the Tohoku region, after the Great East Japan Earthquake, with the generous support of people from all over Japan, we have had ample opportunity to reflect on the raison d'etre of the pachinko business, which is again our core business. Bearing this firmly in mind, we will continue to strive to inject brightness, fun, and interesting in the lives of local residents by providing diverse entertainment. We will never forget our feelings of appreciation to our customers, all our shareholders, and everyone else involved with NIRAKU. We will continue to overcome this harsh environment through strong will and effort as we will keep striving to build our corporate value.

In addition, we will continue to promote an environment where employees can take the initiative in devising and undertaking improvements, imparting a spirit of self-reliance in our employees so that each and every employee can consistently meet new challenges without fear of failure, enabling us to respond quickly to the rapidly changing business environment, and working toward realising a company-wide united management philosophy.

We look forward to your continued generous support, and we sincerely thank you.

Management Discussion and Analysis

BUSINESS OUTLOOK AND STRATEGIES

For the year ended 31 March 2016, the Group recorded the gross pay-ins of ¥158,095 million (2015: ¥175,592 million) and revenue of ¥30,995 million (2015: ¥32,886 million), representing a decline of 10.0% and 5.8%, respectively, as compared to last financial year. The Group reckoned the cause of drop being (i) continuous shrinkage in the pachinko industry as great variety of entertainment, including video and mobile games and internet, widely available in the market diverting people from pachinko entertainment; and (ii) the revenue margin level (mainly a combination of the pay-out ratios offered and G-prize markup imposed) which may draw away customers who are gaming-oriented.

Confronting the decline in revenue, the Group is persistent in gaining its market share through expansion of hall network in Tohoku area, where the Group has strategic advantage of being the largest pachinko operator. During the year ended 31 March 2016, the Group opened 2 new halls, one in Ibaraki prefecture and one in Gunma prefecture, each of these halls is equipped with over 600 machines. For the year ended 31 March 2016, these 2 halls generated ¥5,767 million gross pay-ins and ¥630 million revenue to the Group. Realising that pay-out ratio is a key factor that has direct impact to customer visits, during the year, the Group has optimised its pay-out ratio to drive higher traffic. Following these measures, the Group has seen a gradual improvement in machine utilisation during the course of the year ended 31 March 2016.

Grappling with the market downturn, the Group is committed to retain its existing customers through providing a wider range of machines, optimising pay-out ratio and enhancing hall services. For the year ended 31 March 2016, the Group has speeded up its scheduled machine replacement and as a result incurred an additional ¥1,221 million in machine expense as compared to 2015. During the year, the Group introduced an online prize redemption system, offering over 10,000 types of general prizes to customers. This online prize redemption system is planned to extend to additional 14 halls during the year ended 31 March 2017 to increase repeated patronage of the customers.

Moving ahead, the Group continues to focus on expanding pachinko business; and at all time explores new opportunities to broaden the revenue base. Subsequent to the current financial year end, on 8 April 2016, the Group opened its mega store in Fukushima with over 1,200 pachinko and pachislot machines. This mega store is the biggest hall of the Group even since and remarked as one of the largest pachinko hall in Tohoku area. On 19 May 2016, the Group entered into a sales and purchase agreement with Coastal Heritage Limited to acquire 66.7% of the equity interest in Nha Trang Holdings Limited ("Nha Trang"), a company owns and operates 7 Vietnames restaurants and 1 pinot duck restaurant in Hong Kong, at an aggregate consideration of HK$100 million. This acquisition align with the Group's strategy of expanding its scale of operating in hospitality business. The Group expects it to bring in new income to the Group and also enhances the Group's market presence.

Management Discussion and Analysis

FINANCIAL REVIEW

Gross pay-ins

Both suburban and urban halls recorded a decline in gross pay-ins over the same period last year. Despite additional revenue was generated from 2 new halls opened in April 2015, gross pay-ins decreased by ¥17,497 million, or 10.0%, from ¥175,592 million in 2015 to ¥158,095 million in 2016. It was mainly due to decrease in player traffic which led to decrease in utilisation of pachinko and pachislot machines.

Gross pay-outs

Gross pay-outs, being the aggregate cost of G-prizes and general prizes exchanged by customers, noted a decrease in both suburban and urban halls by ¥15,573 million, or 10.9%, from ¥143,473 million in 2015 to ¥127,900 million in 2016 generally followed the trend of their respective gross pay-ins, together with decrease in payout ratio with the attempt to increase revenue margin.

Revenue and revenue margin from pachinko and pachislot business

Revenue from pachinko and pachislot business plunged by ¥1,924 million, or 6.0%, from ¥32,119 million in 2015 to ¥30,195 million in 2016. The fall was resulted from the decrease in customer visits outweighed the additional revenue of ¥630 million from two new halls opened during the year.

The revenue margin increased by 0.8% from 18.3% in 2015 to 19.1% in 2016. This slight improvement was mainly attributable to the optimisation of pay-out ratio which helped to improve the revenue from pachinko and pachislot hall operations to a 0.8% increase as compared to 2015.

Other revenue

Other revenue represents incomes from vending machines, hotel and restaurant operations.

Vending machine income dropped slightly from ¥592 million in 2015 to ¥588 million in 2016 resulted from fall in hall traffic, as a portion of the vending machine income was from the sharing of gross revenue of such vending machines.

Income from hotel operations grew steadily from ¥154 million in 2015 to ¥164 million in 2016 as a result of increase in average occupancy rate from 80% in 2015 to 83% in 2016.

The first restaurant under the brand 'LIZARRAN' was opened in October 2014. Revenue derived from this restaurant amounted to ¥48 million in 2016, an increase of ¥27 million as compared to 2015.

Hall operating expenses

Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and rental expenses, amounting to ¥9,619 million, ¥5,081 million and ¥2,703 million, respectively, for the year ended 31 March 2016 (31 March 2015: ¥8,399 million, ¥4,841 million and ¥2,471 million, respectively).

Hall operating expenses increased by ¥2,225 million, or 9.7%, from ¥22,982 million in 2015 to ¥25,207 million in 2016, mainly due to the increase in machine purchases for 2 new halls and accelerated machine replacements for existing halls to increase hall traffic as the management noticed a trend of decreasing customer traffic from April 2015 onwards.

Management Discussion and Analysis

Administrative and other operating expenses

Administrative and other operating expenses decreased by ¥521 million, or 9.8%, from ¥5,336 million in 2015 to ¥4,815 million in 2016, primarily due to the decrease in staff cost of ¥486 million and listing expense of ¥336 million, netted with provision of impairment loss on property, plant and equipment of ¥317 million in relation to one underperformed hall.

Finance costs

Finance costs increased by ¥222 million, or 36.0%, from ¥616 million in 2015 to ¥838 million in 2016. The increase was primarily attributable to the increase in finance costs and early repayment penalties in related to early terminated loans of ¥206 million as a result of transition to group financing system. The Group foresees that through this group financing system, repayments and interest burden can be reduced in the future.

Profit before income tax, profit attributable to shareholders of the Company, basic earnings per share and dividend

Profit before income tax for the year decreased by ¥4,361 million, from ¥4,994 million in 2015 to ¥633 in 2016, with net profit margin decreased from 9.2% in 2015 to 0.6% in 2016.

Profit attributable to shareholders of the Company decreased from ¥3,030 million in 2015 to ¥181 million in 2016, a 94.0% drop over last year.

Basic earnings per share was ¥0.15 (31 March 2015 ¥3.38). The board of directors of the Company (the "Board") has declared a final dividend of ¥0.10 per share for the year ended 31 March 2016 (2015: ¥0.76 per share) on 20 May 2016.

CAPITAL STRUCTURE

The Group principally meets its working capital and other liquidity requirements through a combination of capital contributions, including cash flow from operations and bank borrowings. The Group's daily operation is mainly financed by operating cash flows, and relied on short- and long-term borrowings for financing working capital, future expansion plans and unexpected needs. The Group's treasury objective is mainly to ensure there is sufficient cash flow to meet the payment of expenses, loans and to fund any capital expenditure and commitment that the Group may have from time to time. The Group's cash surpluses are placed in short-term and long-term fixed deposits to maintain liquidity. The Group has not experienced any difficulties in repaying its borrowings.

The Group's principal business activities are carried out in Japan, with income, expenditure, assets and liabilities mainly denominated in Japanese Yen, as such, the Group does not have any material foreign exchange exposure.

The table below sets forth the information regarding the cash and cash equivalents, bank deposits, bank borrowings, obligations under finance leases, working capital, total equity and gearing ratio of the Group as at 31 March 2016 and 31 March 2015, and operating cash flows before movements in working capital of the Group for the year ended 31 March 2016 and 2015, respectively:

	As at 31 March	
	2016	2015
	¥ million	¥ million
Cash and cash equivalents	**12,310**	9,480
Bank deposits	**482**	2,411
	12,792	11,891
Bank loans	**3,627**	8,036
Syndicated loans	**9,123**	6,578
Bonds	**277**	634
Obligations under finance leases	**6,600**	5,867
	19,627	21,115
Working capital	**7,310**	3,614
Total equity	**27,097**	22,856
Gearing ratio	**72.4%**	92.4%

	For the year ended 31 March	
	2016	2015
	¥ million	¥ million
Operating cash flows before movements in working capital	**4,242**	7,635

Net current assets of the Group totalled ¥7,310 million as at 31 March 2016 (31 March 2015: ¥3,614 million), and current ratio was 1.88 as at 31 March 2016 (31 March 2015: 1.33). As at 31 March 2016, there were cash and cash equivalents of ¥12,310 million (31 March 2015: ¥9,480 million), in which ¥11,827 million was denominated in Japanese Yen, ¥325 million was denominated in United States dollar and ¥158 million was denominated in Hong Kong dollar. The Group had total borrowings of ¥19,627 million (31 March 2015: ¥21,115 million). Current portion of borrowings and current portion of obligations under finance leases amounted to ¥4,825 million (31 March 2015: ¥5,816 million).

The Group's bank borrowings, comprising bank loans, syndicated loans and bonds, amounted to ¥13,027 million (31 March 2015: ¥15,248 million). As at 31 March 2016, the average effective interest rates on bank borrowings ranged from 1.1% to 2.3% (31 March 2015: 2.0% to 2.6%) per annum. Approximately 11.5% of bank borrowings as at 31 March 2016 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS

The Group entered into certain floating to fixed interest rate swap contracts with banks in Japan (i.e. the Group pays fixed interest rates and receive interests at floating rate) during the year ended 31 March 2016. These interest rate swap contracts were entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the year ended 31 March 2016, the loss on fair value for interest rate swaps contracts amounted to ¥16 million. As at 31 March 2016, there was only one floating to fixed interest rate swap contract outstanding.

The Group did not carry out any foreign currency investment and its debts were all denominated in Japanese Yen. As the Group's principal business activities are carried out in Japan, the Group does not have any material foreign exchange exposure.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and obligations under finance leases, divided by total equity, was 72.4% as at 31 March 2016 (31 March 2015: 92.4%). The decrease of 20.0% as compared with that of the year ended 31 March 2015 was mainly due to decrease of total borrowings of ¥1,488 million and increase of total equity of ¥4,241 million.

CAPITAL EXPENDITURE

Capital expenditure mainly comprised of expenditure for (i) the purchase of property, plant and equipment mainly used for construction of buildings, and (ii) the purchase of equipment and tools for the expansion and maintenance of our pachinko and pachislot hall operations. The table below shows a breakdown of the capital expenditure for the indicated periods:

	As at 31 March	
	2016	2015
	¥ million	¥ million
Property, plant and equipment	**4,105**	3,555
Investment properties	**43**	20
Others	**58**	53
	4,206	3,628

CHARGES ON ASSETS

As at 31 March 2016 and 2015, the carrying values of charged assets were as below:

	2016	2015
	¥ million	¥ million
Property, plant and equipment	**8,445**	7,991
Investment properties	**697**	681
Bank deposits	**–**	1,100
Deposits and other receivables	**560**	258
Other long term assets	**–**	40
	9,702	10,070

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2016 and 2015.

CAPITAL COMMITMENTS

Details of the Group's capital commitments as at 31 March 2016 and 2015 are set out in Note 33 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

During the year ended 31 March 2016, the Group did not conduct any significant investments, material acquisitions or disposals. Save for those disclosed in this annual report, the Group had no plan authorised by the Board for other material investments or additions of capital assets as at the date of this annual report.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2016, the Group had 1,490 employees. The remuneration policy of the Group (including those for directors and employees) is determined by the Remuneration Committee under the Board as per the performance, qualifications and competence of the employees. Details of the key management remuneration of the Company are set forth in Note 36 to the consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the initial public offering in April 2015 amounted to approximately HK$339 million, of which HK$278 million was utilised for the year ended 31 March 2016. The remaining net proceeds of HK$61 million will be used for the originally planned purposes as set out in the Company's prospectus dated 24 March 2015 (the "Prospectus").

Management Discussion and Analysis

FINAL DIVIDEND

The Board has declared a final dividend of ¥0.10 per share for the year ended 31 March 2016 (31 March 2015: ¥0.76 per share) on 20 May 2016, the final dividend will be payable on 7 July 2016 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company at close of business on 6 June 2016.

The exchange rate for the conversion of Japanese Yen to Hong Kong dollar for the dividend distributed to the Shareholders in the currency other than Japanese Yen is based on the average currency rates prevailing five trading days immediately prior to 20 May 2016 (being 13 May 2016 and 16 to 19 May 2016).

Corporate Governance Report

CORPORATE GOVERNANCE

During the year ended 31 March 2016, the Company has adopted and complied with all the applicable principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), with the exception for code provision A.2.1, which requires the roles of chairman and chief executive to be separated and should be performed by different individuals; and code provision E.1.3, which requires that notice for an annual general meeting should be sent to the Shareholders at least 20 clear business days before the meeting.

Code Provision A.2.1

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Chairman currently holds both positions. Since April 2010, our Chairman has been the key leadership figure of our Group who has been primarily involved in the formulation of business strategies and determination of the overall direction of our Group. He has also been chiefly responsible for our Group's operations as he directly supervises our Executive Officers (other than himself) and members of our senior management. Taking into account the continuation of the implementation of our business plans, the directors of the Company (the "Directors") (including our Independent Non-executive Directors) consider our Chairman is the best candidate for both positions and the present arrangements are beneficial to and in the interests of our Company and our Shareholders as a whole.

Code Provision E.1.3

Code provision E.1.3 stipulates that notice for an annual general meeting (the "AGM") should be sent to its shareholders by the issuer at least 20 clear business days before the meeting. The AGM of the Company for the year ended 31 March 2015 was held on 26 June 2015 ("2015 AGM"), while the notice for the 2015 AGM was despatched on 4 June 2015. The above arrangement complied with the articles of incorporation of the Company (the "Articles of Incorporation") prepared pursuant to the Companies Act in respect of the minimum notice period of 21 calendar days (the date of sending and the date of the meeting shall not be included within this period) for AGM but the notice period for the 2015 AGM was less than 20 clear business days before the 2015 AGM.

Under the Companies Act and the Articles of Incorporation, the Company is required to hold an AGM within three months after the expiration of each financial year (i.e. on or before 30 June 2015 for the financial year ended 31 March 2015).

The Companies Act also requires the notice for the AGM to be despatched together with the audited financial statements under the Japanese Generally Accepted Accounting Principles, which must be approved by the Board. On the other hand, the annual report must contain audited financial statements prepared under the IFRS as required under the Listing Rules. As a result, more time was required to finalise the annual report which accompanied the AGM notice despatched to the Shareholders.

Corporate Governance Report

DELEGATION BY THE BOARD

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. The Board is accountable to the Shareholders. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

BOARD OF DIRECTORS

The Board oversees the management, businesses, strategic directions and financial performance of the Group. The Board currently comprises a total of five Directors, with one executive Director, namely Hisanori TANIGUCHI (also known as JEONG Seonggi), and four independent non-executive Directors, namely Mr. Hiroaki MORITA, Mr. Norio NAKAYAMA, Mr. Masaharu TOGO and Mr. Hiroaki KUMAMOTO. The biographies of the Directors are set out on pages 24 to 25 of this annual report.

Pursuant to the code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The Board has adopted the board diversity policy with a view to achieve a sustainable and balanced development of the Group. In designing the Boards composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Board's composition (including gender, ethnicity, age, length of service) will be disclosed in the Corporate Governance Report annually. This diversity policy is reviewed annually by the Nomination Committee, and where appropriate, revisions will be made with the approval from the Board.

Chairman and Chief Executive Officer

The Board has appointed a Chairman, Mr. Hisanori TANIGUCHI, who provides leadership for the Board and ensures that the Board works effectively and that all important issues are discussed in a timely manner. The Chairman also holds the position of Chief Executive Officer. Since April 2010, our Chairman has been the key leadership figure of our Group who has been primarily involved in the formulation of business strategies and determination of the overall direction of our Group. He has also been chiefly responsible for our Group's operations as he directly supervises our executive officers (other than himself) and members of our senior management. Taking into account the continuation of the implementation of our business plans, our Directors (including our independent non-executive Directors) consider our Chairman is the best candidate for both positions and the present arrangements are beneficial and in the interests of our Company and our Shareholders as a whole.

Independent Non-Executive Directors

The Company has received annual confirmations of independence from all the independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Board is of the view that all the independent non-executive directors are independent and have appropriate professional qualifications or accounting or related financial management expertise in accordance with Rule 3.10 of the Listing Rules.

Audit Committee

The Company established the Audit Committee on 25 June 2014 with specific written terms of reference. The Audit Committee is responsible for assisting the Board in providing an independent view of the financial information of the Company, effectiveness of our risk management, financial reporting system and internal control procedures, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The Audit Committee also oversees the corporate governance functions.

The Audit Committee held ten meetings during the year ended 31 March 2016 to review reports on internal control system of the Group, and to discuss with the management and the external auditors the accounting policies and practices which may affect the Group and financial reporting matters. The Audit Committee reviewed the system of internal control and the financial statements for the year ended 31 March 2016 and interim financial statements for the six months ended 30 September 2015 and with recommendation to the Board for approval. The audit plans from external auditors were also reviewed by the Audit Committee and recommendation was made on the reappointment of the external auditors.

The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Hiroaki KUMAMOTO (熊本浩明), Mr. Hiroaki MORITA (森田弘昭) and Mr. Norio NAKAYAMA (中山宣男). It is currently chaired by Mr. Hiroaki KUMAMOTO (熊本浩明), an independent non-executive Director.

Remuneration Committee

Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all the Directors and senior management of the Group and on the establishment of a formal and transparent procedure for developing remuneration policy for approval by the Board.

The Remuneration Committee currently consists of three members, including two independent non-executive Directors, namely Mr. Norio NAKAYAMA (中山宣男) and Mr. Hiroaki MORITA (森田弘昭) and an executive Director, namely Mr. Hisanori TANIGUCHI (谷口久徳) (also known as Mr. JEONG Seonggi). It is currently chaired by Mr. Norio NAKAYAMA (中山宣男), an independent non-executive Director.

The Remuneration Committee held two meetings during the year ended 31 March 2016 to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management and making recommendations to the Board about the remuneration of non-executive Directors.

For the year ended 31 March 2016, the number of the senior management whose remuneration fell within the following band is as follows:

Emolument bands	Number of individuals
Below ¥10,000,000	5
¥10,000,001 to ¥20,000,000	1
¥20,000,001 to ¥30,000,000	2
¥30,000,001 to ¥100,000,000	–
¥100,000,001 to ¥110,000,000	1

Nomination Committee

The Company established the Nomination Committee on 25 June 2014 with specific written terms of reference. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment and re-appointment of Directors. The Nomination Committee held one meeting during the year ended 31 March 2016.

The Nomination Committee currently consists of three members, including two independent non-executive Directors, namely Mr. Hiroaki MORITA (森田弘昭) and Mr. Masaharu TOGO (東郷正春) and an executive Director, namely Mr. Hisanori TANIGUCHI (谷口久徳) (also known as Mr. JEONG Seonggi). It is currently chaired by Mr. Hiroaki MORITA (森田弘昭), an independent non-executive Director.

The Nomination Committee held one meeting during the year to review the structure, size and composition of the Board, approve the renewal of the term of appointment for those Directors, assess the independence of the independent non-executive Directors and review the measurable objective in implementing the diversity policy of the Board.

All Directors (including non-executive Directors) have formal letters of appointment with the Company for a term of one year commencing from their respective dates of appointment, subject to retirement by rotation in accordance with the Articles of Incorporation. At the Company's 2015 AGM, five of the Directors retired from office by rotation in accordance with the Articles of Incorporation. All of them were re-elected by shareholders to continue their offices as Director. The Nomination Committee has reviewed the Directors' rotation plan to ensure that every Director will retire by rotation at least once every year at an annual general meeting.

Attendance at meetings of the General Meeting, the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee:

	Number of meetings attended/Eligible to attend for year ended 31 March 2016				
Name of Directors	**General Meeting**	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**
Mr. Hisanori TANIGUCHI (谷口久徳)	1/1	15/15	N/A	2/2	1/1
Mr. Hiroaki MORITA (森田弘昭)	1/1	15/15	10/10	2/2	1/1
Mr. Norio NAKAYAMA (中山宣男)	1/1	15/15	10/10	2/2	N/A
Mr. Masaharu TOGO (東郷正春)	1/1	15/15	N/A	N/A	1/1
Mr. Hiroaki KUMAMOTO (熊本浩明)	1/1	15/15	10/10	N/A	N/A

There were fifteen meetings of the Board held during the year ended 31 March 2016.

Directors who are considered having conflict of interests or material interests in proposed transactions or contemplated issues are required to abstain from voting on the relevant resolution.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All Directors participated in continuous professional development to develop and refresh their knowledge and skills. The Company's external lawyers had facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a listed company director. Directors including Mr. Hisanori TANIGUCHI, Mr. Hiroaki MORITA, Mr. Norio NAKAYAMA, Mr. Masaharu TOGO and Mr. Hiroaki KUMAMOTO received this training. Ms. YIU Wai Man Karen, the joint company secretary of the Company, from time to time updates and provides written training material relating to the roles, functions and duties of a Director and all the aforesaid Directors study such materials, and they are asked to submit a signed training record to the Company on an annual basis.

Corporate Governance Function

The Board recognises that corporate governance should be the collective responsibility of Directors which includes:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance and making recommendations to the Board and report to the Board on matters;

(e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

(f) to review and monitor the Company's compliance with the Company's whistleblowing policy.

AUDITOR'S REMUNERATION

During the year ended 31 March 2016, the total fee in relation to the annual audit of the Group amounted to ¥60 million, which was paid/payable to PricewaterhouseCoopers and its affiliated firm. The remuneration paid to PricewaterhouseCoopers and its affiliated firm for services rendered is listed as follows:

	2016
	¥ million
Types of services	
Statutory audit	60
Reporting Accountant for the Global Offering	–
Non-audit services (Note)	24
Total	84

Note: Non-audit services comprise primarily tax advisory services provided to the Group.

JOINT COMPANY SECRETARY

The joint company secretaries are Ms. YIU Wai Man Karen and Ms. NG Sau Mei. Ms. Yiu Wai Man Karen is also the financial controller and is employed by the Company on a full-time basis.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. NG Sau Mei, senior manager of KCS Hong Kong Limited (a company secretarial service provider), as the other joint company secretary to assist Ms. YIU Wai Man Karen to discharge her duties as company secretary of the Company. The primary corporate contact person at the Company is Ms. YIU Wai Man Karen.

For the year ended 31 March 2016, Ms. YIU Wai Man Karen and Ms. NG Sau Mei have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board, supported by the finance department, is responsible for the preparation of the financial statements of the Company and the Group. The Board has prepared the financial statements in accordance with International Financial Reporting Standards issued by International Accounting Standard Board. Appropriate accounting policies have also been used and applied consistently. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company and the Group regarding their reporting responsibilities on the financial statements of the Company and the Group is set out in the Independent Auditor's Report on pages 37 to 38 of this annual report.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct during the year ended 31 March 2016.

SHAREHOLDERS' RIGHTS

The Board and senior management maintain a continuing dialogue with the Shareholders and investors through various channels including the Company's AGM. The Chairman, chairmen of board committees (or respective designated member), Executive officers and external auditors will attend the AGM. The Directors will answer questions raised by the Shareholders on the performance of the Group. Our corporate website which contains corporate information, announcements as well as the recent developments of the Group enables Shareholders to have timely and updated information of the Group.

Any one Shareholder holding no less than 3% of the voting rights in the Company for the last six consecutive months may request the Company's directors to convene a general meeting. If the directors do not send out a convocation notice for such general meeting to be held and such Shareholders' meeting is not convened by the directors within eight weeks from the date of such request, the relevant Shareholder who made the request may convene a general meeting with court permission.

INVESTOR RELATIONS

To manage its relationship with investment community and its Shareholders, the Company also communicates through announcements and annual and interim reports. All such reports and announcements can also be accessed via the Company's website. The Directors, company secretary or other appropriate members of the senior management also respond to inquiries from Shareholders and investment community promptly. Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries via Strategic Financial Relations Limited at niraku@sprg.com.hk.

INTERNAL CONTROL

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, ensuring maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

In the year under review, the Board has reviewed, through the Audit Committee, the Group's internal control system and is not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the internal control system.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year, an amended Articles of Incorporation was adopted on 16 March 2015 and took effect from the Listing Date, saved as disclosed, there was no significant change in the Company's constitutional documents.

Profile of Directors and Senior Management

CHAIRMAN OF THE BOARD, EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. Hisanori TANIGUCHI (谷口久徳) (also known as Mr. JEONG Seonggi), aged 53, is the primary leadership figure of the Group. He was appointed as the Representative Director and President* (代表取締役社長) of the Company on 10 January 2013, the date of incorporation of our Company, and was re-designated as a Director and Chief Executive Officer on 25 June 2014. Mr. Taniguchi is responsible for the Group's overall corporate strategies, management and business development. He is also a member of our Nomination Committee and Remuneration Committee.

Mr. Taniguchi joined the Group in April 1983, deployed in a number of departments across our operations, from human resources to hall development and sales. Throughout his 32 years of experience with the Group, he has acquired extensive knowledge in a wide array of aspects in pachinko and pachislot hall operations.

Mr. Taniguchi first involved in our overall general management in November 2002, when he was appointed as the managing director* (常務取締役) of Niraku Corporation. He was subsequently elected as the vice president* (取締役副社長), president* (取締役社長) and representative director and president* (代表取締役社長) of Niraku Corporation in June 2008, June 2009 and April 2010, respectively. He is currently the representative director and president* (代表取締役社長) of Niraku Corporation and Niraku Merrist Corporation ("Merrist").

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hiroaki MORITA (森田弘昭), aged 79, was appointed as an independent non-executive Director in June 2014 and is the chairman of the Nomination Committee and a member of Audit Committee and Remuneration Committee. Mr. Morita has been a director of IPO Research Institute, Ltd.* (IPO総合研究所) since April 2000. Mr. Morita also worked for Nomura Securities Co., Ltd.* (野村證券株式会社) between April 1960 and June 1989 and served various positions in its underwriting and finance divisions. He has also been the representative director (代表取締役) of Morita Office* (株式会社 森田・栗山事務所), which provides management consulting services, since August 1997. With his current and previous positions in these institutions in Japan and as a chartered member of the Securities Analysts Association of Japan* (日本証券アナリスト協会) since August 1981, he has extensive experience in securities dealings, financial analysis, corporate governance and other aspects relating to listed companies in Japan.

Mr. Norio NAKAYAMA (中山宣男), aged 68, was appointed as an independent non-executive Director in June 2014 and the chairman of Remuneration Committee and a member of Audit Committee. Mr. Nakayama joined Kaneka Corporation* (株式会社カネカ), a listed company on both The Tokyo Stock Exchange (4118:JP) and Nagoya Stock Exchange (4118:JP), in April 1969, and was its corporate auditor prior to his departure in May 2009. Through his positions within Kaneka Corporation* (株式会社カネカ), Mr. Nakayama acquired experiences in on-going compliance matters and corporate governance of a listed corporation in Japan. Until November 2006, Mr. Nakayama also served as an external corporate auditor for Asahi Homes Co. Ltd * (旭ホームズ株式会社). Mr. Nakayama was a director of Fire Stove Japan Co., Ltd.* (株式会社ファイヤーストーブジャパン) between December 2010 and April 2015.

Mr. Masaharu TOGO (東郷正春), aged 68, was appointed as an independent non-executive Director in June 2014 and a member of the Nomination Committee. Mr. Togo joined Sumitomo Corporation* (住友商事株式会社) in April 1973 and was a manager in charge of its stainless steel and magnesium production division until his departure in May 2006. Prior to that, Mr. Togo was a corporate auditor for Daiwa Kohtai Co., Ltd* (大和鋼帯株式会社) from June 2001 to June 2003.

Profile of Directors and Senior Management

Mr. Hiroaki KUMAMOTO (熊本浩明), aged 47, was appointed as an independent non-executive Director in November 2014 and the chairman of the Audit Committee. Mr. Kumamoto spent over 15 years of his career both in the Japan and Hong Kong offices of PricewaterhouseCoopers. Mr. Kumamoto is currently the chief executive officer* (代表執行役) of Global Japan Consulting Limited.

EXECUTIVE OFFICERS

Mr. Akinori OHISHI (大石明徳), aged 51, was appointed as Executive Officer in June 2014 and a member of Risk Management Committee. He is a prominent management figure in the Group and manages day-to-day operations. Mr. Ohishi joined the Group in April 2010 as an advisor of Niraku Corporation. He was promoted to director and head of corporate planning of Niraku Corporation in June 2012, chiefly responsible for implementing the corporate and business strategies of pachinko and pachislot hall operations. Mr. Ohishi was elected as a Director of the Company upon incorporation in January 2013, and was re-designated as an Executive Officer on 25 June 2014. Mr. Ohishi's industry positions include his directorship* (理事) at Pachinko Chain Store Association* (一般社団法人パチンコ チェーンストア協会).

Mr. Hidenori MOROTA (諸田英模), aged 50, appointed as Executive Officer in November 2014 and a member of Risk Management Committee. He is also a director of Niraku Corporation since June 2012. He is the head of sales department and overseas the advertising, marketing, sales, machine selection and general prize offerings functions of the Group. Mr. Morota joined the Group in October 1988 and was elected as a director of Niraku Corporation in June 2001 and was subsequently promoted to an executive officer* (執行役) in June 2005. He served as a Director of the Company between January 2013 and June 2014, and was designated as Executive Officer in November 2014.

SENIOR MANAGEMENT

Mr. Tatsuo TANIGUCHI (谷口龍雄), aged 62, appointed as the representative director and president* (代表取締役社長) of Nexia Inc. in June 2009. His primary duties within the Group are the oversight of property activities, including the selection, acquisition and maintenance of the lands and premises of our pachinko halls. He also manages the office premises and residential apartment building owned by the Group which were leased to third party customers as an ancillary business. Mr. Taniguchi joined the Group in 1974 and resigned his office as Director of the Group in 2014. Mr. Taniguchi remains as an advisory role within the Group, focusing on property activities. Mr. Taniguchi is the brother of the Chairman and is therefore his associate under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Mr. Taniguchi is also a controlling shareholder of the Company and also a person acting in concert with the Chairman within the meanings of the Codes on Takeovers and Mergers and Share Buy-backs.

Mr. Tadashi UCHIYAMA (内山忠), aged 64, joined the Group in 2011 as statutory auditor* (監査役) of Niraku Corporation. Mr. Uchiyama has over 38 years of experience in banking, information system and business consultation and management. Mr. Uchiyama has been a member of the Civil Dispute Resolution Committee* (民事調停委員会) of the Japanese government since October 2012.

* *For identification purpose only*

Report of the Directors

The Directors are here to present the annual report of the Company together with the audited consolidated financial statements of the Group for the year ended 31 March 2016.

GROUP REORGANISATION AND INITIAL PUBLIC OFFERING

The Company was incorporated with limited liability in Japan on 10 January 2013. Pursuant to the group reorganisation to rationalise the structure of the Group in preparation for the Initial Public Offering and listing of the Company's shares (the "Listing"), the Company became the holding company of the companies now comprising the Group. The shares of the Company were subsequently listed on the Main Board of the Stock Exchange on 8 April 2015. Details of the group reorganisation during the year are set out in Note 1.2 to the consolidated financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Company and its subsidiaries comprising the Group are principally engaged in pachinko and pachislot hall operations, hotel operations and restaurant business in Japan. The activities of the principal subsidiaries are set out in Note 1.1 to the consolidated financial statements. An analysis of the Group's performance for the year by operating segment is set out in Note 5 to the consolidated financial statements.

BUSINESS REVIEW

Year 2016 is a challenging year to the Group which the entire pachinko industry is facing the head wind of persistent decrease in pachinko players; and the Group, being one of the largest pachinko hall operators in Tohoku area, is not immune from it.

Set forth below are certain key performance indicators of the Group's pachinko business by hall type:

	For the year ended 31 March	
	2016	2015
	¥ million	¥ million
Gross pay-ins		
— Suburban halls	**150,326**	163,365
— Urban halls	**7,769**	12,227
	158,095	175,592
Gross pay-outs		
— Suburban halls	**(121,600)**	(133,760)
— Urban halls	**(6,300)**	(9,713)
	(127,900)	(143,473)
Revenue from pachinko and pachislot business		
— Suburban halls	**28,726**	29,605
— Urban halls	**1,469**	2,514
	30,195	32,119
Revenue margin		
— Suburban halls	**19.1%**	18.1%
— Urban halls	**18.9%**	20.6%

	As at 31 March	
	2016	2015
Machine utilisation rate		
— Pachinko	**24.2%**	26.5%
— Pachislot	**23.2%**	22.5%
Number of halls		
— Suburban halls	**48**	46
— Urban halls	**7**	9
	55	55
Number of machines		
— Pachinko	**18,537**	18,392
— Pachislot	**9,602**	9,054
	28,139	27,446

Note: During the year ended 31 March 2016, the Group opened two new halls in Tohoku area and in the same year, closed two underperformed pachinko halls.

For the year ended 31 March 2016, revenue from pachinko and pachislot business was dropped by ¥1,924 million (or 6.0%). Despite the opening of two new halls in Tohoku area in April 2015, bringing in additional revenue of ¥630 million for the year 2016, and optimising the pay-out ratio to boost the machine utilisation rate, these measures did not offset the decrease in revenue primarily due to the general phenomenon in pachinko industry of lesser customers playing pachinko and pachislot.

In the year ahead, the Group's focus continues to be improving the revenue from pachinko business, and simultaneously stepping in the Group's influence to hospitality business. Details of important events affecting the Company that have occurred since the end of the financial year and future development can be found under the "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

Relationship with Suppliers

The Group's major suppliers consist of machine suppliers, G-prize wholesalers, and general prize suppliers. These suppliers are relatively large and reputable corporations with long-standing relationships with the Group. On average, the Group has over ten years of business dealings with its major suppliers.

Relationship with Customers

The Group's revenue comes from pachinko and pachislot business, and vending machines. As a pachinko hall operator, the Group has a large and diverse customer base across Japan. Regarding vending machine business, revenue derived from the Group's top five largest customers accounted for less than 1% of total revenue for the year ended 31 March 2016.

Relationship with Employees

The Group's success, to a considerable extent, depends upon its ability to attract, motivate and retain a sufficient number of qualified employees, including area managers, hall managers, sales managers and staff. The Group offers competitive wages, bonuses and other benefits to full time employees. Opportunity for advancement is also crucial in building employee loyalty and work dedication. The Group provides clear career paths, job rotation and training to its full time employees. As at 31 March 2016, the Group employed 1,490 staff, a 4% increment compared to 2015.

Environmental Policy

Pursuant to Amusement Business Law and local ordinances, a pachinko license holder must conduct business in such a way as not to cause noise or vibrations (limited to voices of people and other noises and vibrations that are part of operating a business) in the area surrounding the place of business that exceed the limits specified by prefectural ordinances. To ensure compliance with such laws and regulations, the Group had appointed a manager to supervise and monitor the compliance, formulate internal standards regarding such matters, and keep records of any relevant incidents.

Licenses, Regulatory Approvals and Compliance Record

The Group had complied with the Listing Rules and all relevant Japan laws and regulations in all material respects and had obtained all material licenses, approvals and permits from relevant regulatory authorities for all of its pachinko halls in 2016.

Principal Risks and Uncertainties

Principal risks and uncertainties the Group faces include:

- risks related to continuous shrinkage of pachinko players in the industry;
- risks related to natural disasters, such as earthquake and tsunami;
- uncertainty as to the profitability of new halls;
- uncertainty as to the performance of the Group's existing halls;
- uncertainty as to the expansion of hall network;
- uncertainty as to the change of Amusement Business Law and pass of Casino Bill.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2016 are set out in the consolidated statement of comprehensive income on page 39.

The Directors has declared the payment of a final dividend of ¥0.10 per share totaling ¥120 million to the Shareholders. Such payment of dividends will be payable to Shareholders whose names appear on the register of members of the Company at the close of business on 6 June 2016.

Report of the Directors

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years are set out on page 4 of this annual report.

SHARE ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 March 2016 are set out in Note 23 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

During the year ended 31 March 2016, the Group did not enter into any equity-linked agreements.

RESERVES AND DISTRIBUTABLE RESERVES

Movements in reserves during the year are set out in the consolidated statement of changes in equity on page 42.

Distributable reserves of the Company as at 31 March 2016 amounted to approximately ¥2,059 million.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2016 are set out in Note 27 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Incorporation or the laws of Japan.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the period from the Listing Date to the date of this annual report. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the period from the Listing Date to the date of this annual report.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$339 million, which are intended to be applied in the manner as disclosed in the Prospectus.

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this annual report are:

Executive Director
Mr. Hisanori TANIGUCHI (谷口久徳) (also known as Mr. JEONG Seonggi)

Independent Non-Executive Directors
Mr. Hiroaki MORITA (森田弘昭)
Mr. Norio NAKAYAMA (中山宣男)
Mr. Masaharu TOGO (東郷正春)
Mr. Hiroaki KUMAMOTO (熊本浩明)

In accordance with articles 29 of the Articles of Incorporation, all directors will retire at the forthcoming AGM and, being eligible, offered themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE GROUP'S BUSINESS

Save as disclosed in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries was a party and in which a Director and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at the date of this annual report, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

PERMITTED INDEMNITY PROVISION

The Articles of Incorporation provides that the Company may execute an agreement with its directors to limit their liability under Article 423 of the Companies Act in Japan.

The Company has taken out and maintained directors' liability insurance throughout the year and up to date of this annual report, which provides appropriate cover for the Directors of the Group.

EMOLUMENT POLICY

A Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance of the directors and senior management and comparable market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

No remuneration was paid to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group. Further, no compensation was paid to, or receivable by, the Directors or past Directors or the five highest paid individuals during the years ended 31 March 2016 and 2015 for the loss of office as director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

Details of the emoluments of the Directors and five highest paid individuals during the reporting period are set out in Notes 36(a) and 8(b) to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31 March 2016, the interests and short positions of the Directors and the chief executives of the Company and their associates in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register as required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

	Capacity/Nature of interest	Total	Approximate % of shareholding
Hisanori TANIGUCHI (谷口久徳)* (also known as Mr. JEONG Seonggi)	Beneficial owner; interest of controlled corporation[1]	224,480,460 common Shares	18.77%

Notes:

(1) The interests held by Hisanori TANIGUCHI (谷口久徳)* (also known as Mr. JEONG Seonggi) shown above include the 212,980,460 Shares held in his own name for his own benefit and the 11,500,000 Shares held by Densho Limited* (有限会社伝承), a company collectively wholly-owned by his children, the voting rights of which are exercisable by him.

(2) All interests stated are long positions.

(3) There were 1,195,850,460 Shares in issue as at 31 March 2016.

Save as disclosed above, as at 31 March 2016, none of the Directors and chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2016, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

	Capacity/Nature of interest	Total	Approximate % of shareholding
Tatsuo TANIGUCHI (谷口龍雄)	Beneficial owner; interest of controlled corporation; custodian[1]	223,790,000 common shares	18.71%
Masataka TANIGUCHI (谷口晶貴)	Beneficial owner; interest of controlled corporation; custodian[2]	151,570,000 common shares	12.67%
Yoshihiro TEI (鄭義弘)* (also known as JEONG Jungwung)	Beneficial owner; interest of controlled corporation; custodian[3]	98,440,000 common shares	8.23%
Sumitomo Mitsui Financial Group, Inc.* (株式会社三井住友フィナンシャルグループ)	Interest of controlled corporation[4]	229,137,500 common shares	19.16%
Sumitomo Mitsui Banking Corporation* (株式会社三井住友銀行)	Interest of controlled corporation[4]	229,137,500 common shares	19.16%
SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行)	Trustee[1], [2], [3], [4]	229,137,500 common shares	19.16%
Niraku Employee Stock Ownership Association* (ニラク従業員持株会)	Custodian[5]	61,870,000 common shares	5.17%
Choi Jung Ae	Interest of a spouse[6]	224,480,460 common shares	18.77%
Hideko TANIGUCHI (谷口秀子)	Interest of a spouse[7]	223,790,000 common shares	18.71%
Eiko TANIGUCHI (谷口栄子)	Interest of a spouse[8]	151,570,000 common shares	12.67%
JEONG Kyeonghae	Interest of a spouse[9]	98,440,000 common shares	8.23%

	Capacity/Nature of interest	Total	Approximate % of shareholding
Jeong Bak Soo	Interest of a child[10]	224,480,460 common shares	18.77%
Jeong Soo Hun	Interest of a child[10]	224,480,460 common shares	18.77%
Jeong Yoo Ryoung	Interest of a child[10]	224,480,460 common shares	18.77%
Jeong Yu Ri	Interest of a child[10]	224,480,460 common shares	18.77%
JEONG Jangyeong (also known as Masahide TEI (鄭將英)*)	Interest of a child[11]	98,440,000 common shares	8.23%
JEONG Kyeongheon (also known as Akinori TEI (鄭敬憲)*)	Interest of a child[11]	98,440,000 common shares	8.23%
Okada Holdings Limited	Beneficial owner[12]	80,500,000 common shares	6.73%
Universal Entertainment Corporation	Beneficial owner[12]	80,500,000 common shares	6.73%
Tiger Resort Asia Limited	Beneficial owner[12]	80,500,000 common shares	6.73%
Mars Engineering Corporation	Beneficial owner	71,104,000 common shares	5.95%

Notes:

(1) The interests held by Mr. Tatsuo TANIGUCHI (谷口龍雄) shown above include: (i) 161,690,000 Shares held in his own name for his own benefit, (ii)19,320,000 Shares held by Jukki Limited* (有限会社十起), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Tatsuo TANIGUCHI (谷口龍雄); (iii) 1,380,000 Shares held by KAWASHIMA Co., Ltd.* (株式会社KAWASHIMA), a company collectively wholly-owned by our Chairman, Mr. Tatsuo TANIGUCHI (谷口龍雄) and Mr. Masataka TANIGUCHI (谷口晶貴), the voting rights of which are exercisable by Mr. Tatsuo TANIGUCHI (谷口龍雄); and (iv) 41,400,000 Shares held by the TT Family Trust for the benefit of his children, namely Ms. Yoshika TEI (鄭淑佳)* (also known as Ms. JEONG Sukka), Mr. Kousei TEI (鄭光誠)* (also known as Mr. CHONG Gangsong) and Mr. Kiyokazu TANIGUCHI (谷口清和). SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行) is the trustee and assignee* (受託者) of the TT Family Trust and Mr. Tatsuo TANIGUCHI (谷口龍雄) is entitled to exercise the voting rights attached to the Shares under the TT Family Trust. The interests under the TT Family Trust are equally distributed among the three beneficiaries under the TT Family Trust.

(2) The interests held by Mr. Masataka TANIGUCHI (谷口晶貴) shown above include: (i) 11,442,500 Shares held in his own name for his own benefit; (ii) 5,750,000 Shares held by Hokuyo Kanko Limited* (有限会社北陽観光), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Masataka TANIGUCHI (谷口晶貴); and (iii) 134,377,500 Shares held by the MT Family Trust for the benefit of his children, namely Mr. Tatsunari TANIGUCHI (谷口辰成)* (also known as Mr. CHONG Jinsong), Mr. Takanari TANIGUCHI (谷口喆成)* (also known as Mr. JEONG Cheolseong) and Mr. Toshinari TANIGUCHI (谷口才成)* (also known as Mr. CHUNG Jaeseong). SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行) is the trustee and assignee* (受託者) of the MT Family Trust and Mr. Masataka TANIGUCHI (谷口晶貴) is entitled to exercise the voting rights attached to the Shares under the MT Family Trust. The interests under the MT Family Trust are equally distributed among the three beneficiaries under the MT Family Trust.

(3) The interests held by Mr. Yoshihiro TEI (鄭義弘)* (also known as JEONG Jungwung) shown above include: (i) 33,580,000 Shares held in his own name for his own benefit; (ii) 11,500,000 Shares held by Daiki Limited* (有限会社大喜), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Yoshihiro TEI (鄭義弘)* (also known as JEONG Jungwung); and (iii) 53,360,000 Shares held by the YT Family Trust for the benefit of his children, namely Mr. Akinori TEI (鄭敬憲)* (also known as JEONG Kyeongheon) and Mr. Masahide TEI (鄭將英)* (also known as JEONG Jangyeong). SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行) is the trustee and assignee* (受託者) of the YT Family Trust and Mr. Yoshihiro TEI (鄭義弘)* (also known as JEONG Jungwung) is entitled to exercise the voting rights attached to the Shares under the YT Family Trust. The interests under the YT Family Trust are equally distributed among the two beneficiaries under the YT Family Trust.

(4) Sumitomo Mitsui Financial Group, Inc.* (株式会社三井住友フィナンシャルグループ) holds Sumitomo Mitsui Banking Corporation* (株式会社三井住友銀行), which holds SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行). Accordingly, each of Sumitomo Mitsui Banking Corporation* (株式会社三井住友銀行) and Sumitomo Mitsui Financial Group, Inc.* (株式会社三井住友フィナンシャルグループ) is deemed to be interested in such 229,137,500 Shares held by SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行).

(5) Niraku Employee Stock Ownership Association* (ニラク従業員持株会) (the "ESOA") is the registered owner of 61,870,000 Shares held for the benefit of the members of the ESOA, who are current employees of our Group. The voting rights attached to the Shares held by the ESOA are exercisable by its president* (理事長), currently Mr. Takashi ENDO (遠藤孝), who is not a core connected person of our Company.

(6) Ms. Choi Jung Ae is the spouse of our Chairman and is therefore deemed to be interested in the Shares that our Chairman is interested in under the SFO.

(7) Mrs. Hideko TANIGUCHI (谷口秀子) is the spouse of Mr. Tatsuo TANIGUCHI (谷口龍雄) and is therefore deemed to be interested in the Shares that Mr. Tatsuo TANIGUCHI (谷口龍雄) is interested in under the SFO.

(8) Mrs. Eiko TANIGUCHI (谷口栄子) is the spouse of Mr. Masataka TANIGUCHI (谷口晶貴) and is therefore deemed to be interested in the Shares that Mr. Masataka TANIGUCHI (谷口晶貴) is interested in under the SFO.

(9) Ms. Jeong Kyeonghae is the spouse of Mr. Yoshihiro TEI (鄭義弘)* (also known as JEONG Jungwung) and is therefore deemed to be interested in the Shares that Mr. Yoshihiro TEI (鄭義弘)* (also known as JEONG Jungwung) is interested in under the SFO.

(10) Jeong Bak Soo, Jeong Soo Hun, Jeong Yoo Ryoung and Jeong Yu Ri are the children of our Chairman under the age of 18 and are therefore deemed to be interested in the Shares that our Chairman is interested in under the SFO.

(11) Ms. JEONG Jangyeong (also known as Masahide TEI (鄭將英)*) and Mr. JEONG Kyeongheon (also known as Akinori TEI (鄭敬憲)*) are the children of Mr. Yoshihiro TEI (鄭義弘)* (also known as Mr. JEONG Jungwung) under the age of 18 and are therefore deemed to be interested in the Shares that Mr. Yoshihiro TEI (鄭義弘)* (also known as Mr. JEONG Jungwung) is interested in under the SFO. In addition, they are the beneficiaries under the YT Family Trust.

(12) Okada Holdings Limited indirectly holds 74.21% interest in Universal Entertainment Corporation, which directly holds Tiger Resort Asia Limited. Accordingly, each of the Universal Entertainment Corporation and Okada Holdings Limited is deemed to be interested in such 80,500,000 Shares held by Tiger Resort Asia Limited.

(13) All interests stated are long positions.

(14) There were 1,195,850,460 Shares in issue as at 31 March 2016

Save as disclosed above, and as at 31 March 2016, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Associated Corporation", at no time during the year was the Company, any subsidiary or its holding company or any fellow subsidiary, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

NON-COMPETITION UNDERTAKING

The Controlling Shareholders, including the members of the Taniguchi Consortium, have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition dated 16 March 2015. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the deed of non-competition have been complied with by the Controlling Shareholders and duly enforced since the Listing Date and up to the date of this annual report.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately ¥38 million.

CONNECTED TRANSACTIONS

The Directors confirm that during the year ended 31 March 2016, the Group did not have any connected transactions and continuing connected transactions as defined under the Listing Rules. The significant related party transactions made during the year that did not constitute connected transactions under the Listing Rules were disclosed in Note 34 to the consolidated financial statements. The Directors therefore confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2016, less than 1.0% of the Group's revenue were attributed by the Group's five largest customers and 58.0% of the Group's total purchases were attributed by the Group's five largest suppliers and 34.2% of the Group's total purchases were attributed by the Group's largest supplier. To the knowledge of the Directors, none of the Directors or any Shareholders who owned 5.0% or more of the issued share capital of the Company as at 31 March 2016 or any of their respective associates held any interest in any of the five largest suppliers of the Group.

REMUNERATION POLICY AND PENSION SCHEME

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including the directors). The remuneration policy and remuneration packages of the executive Director and members of the senior management of the Group are reviewed by the Remuneration Committee.

Particulars of the Group's retirement benefit schemes are set out in Note 36 to the consolidated financial statements.

AUDIT COMMITTEE

The audit committee had reviewed, together with the management and external auditor, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 March 2016.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, is held by the public at all times as of the date of this annual report.

AUDITOR

PricewaterhouseCoopers has acted as auditor of the Company for the year ended 31 March 2016.

The consolidated financial statements have been audited by PricewaterhouseCoopers who shall retire in the forthcoming AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
NIRAKU GC HOLDINGS, INC.*
株式会社ニラク・ジー・シー・ホールディングス
Chairman, Executive Director and Chief Executive Officer
Hisanori TANIGUCHI (also known as JEONG Seonggi)

Fukushima, Japan, 20 May 2016

* *For identification purpose only*

Independent Auditor's Report

TO THE SHAREHOLDERS OF 株式会社ニラク•ジー•シー•ホールディングスNIRAKU GC HOLDINGS, INC.*
(incorporated in Japan with limited liability)

We have audited the consolidated financial statements of 株式会社ニラク•ジー•シー•ホールディングス NIRAKU GC HOLDINGS, INC.* (the "Company") and its subsidiaries set out on pages 39 to 102, which comprise the consolidated statement of financial position as at 31 March 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and its subsidiaries as at 31 March 2016, and of the their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 May 2016

* *For identification purpose only*

Consolidated Statement of Comprehensive Income

For the Year ended 31 March 2016

	Note	**2016** **¥ million**	2015 ¥ million
Revenue	5	**30,995**	32,886
Other income	6	**770**	1,039
Other (losses)/gains, net	6	**(272)**	3
Hall operating expenses	7	**(25,207)**	(22,982)
Administrative and other operating expenses	7	**(4,815)**	(5,336)
Operating profit		**1,471**	5,610
Finance income		**54**	119
Finance costs		**(892)**	(735)
Finance costs, net	9	**(838)**	(616)
Profit before income tax		**633**	4,994
Income tax expense	10	**(452)**	(1,964)
Profit for the year attributable to shareholders of the Company		**181**	3,030
Other comprehensive loss			
Change in value of financial assets through other comprehensive income		**(241)**	(155)
Total comprehensive (loss)/income for the year attributable to the shareholders the Company		**(60)**	2,875
Earnings per share for profit attributable to shareholders of the Company			
— Basic and diluted (expressed in Japanese Yen per share)	11	**0.15**	3.38

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 March 2016

	Note	**2016** **¥ million**	2015 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment	13	**28,470**	27,126
Investment properties	14	**697**	681
Intangible assets	15	**210**	189
Prepayments, deposits and other receivables	21	**4,198**	4,772
Financial assets at fair value through profit or loss	17	**106**	201
Financial assets at fair value through other comprehensive income	17	**1,013**	1,378
Deferred income tax assets	29	**1,781**	1,771
Long-term bank deposits	22	**185**	125
		36,660	36,243
Current assets			
Inventories	19	**413**	719
Trade receivables	20	**64**	52
Prepayments, deposits and other receivables	21	**1,456**	1,602
Financial assets at fair value through profit or loss	17	**100**	100
Pledged bank deposits and bank deposits with maturity over 3 months	22	**297**	2,286
Cash and cash equivalents	22	**12,310**	9,480
Current income tax recoverable		**957**	495
		15,597	14,734
Total assets		**52,257**	50,977

Consolidated Statement of Financial Position

As at 31 March 2016

	Note	**2016** ¥ million	2015 ¥ million
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	23	**3,000**	10
Reserves	24	**24,097**	22,846
Total equity		**27,097**	22,856
LIABILITIES			
Non-current liabilities			
Borrowings	27	**9,732**	11,318
Obligations under finance leases	28	**5,070**	3,981
Provisions and other payables	26	**2,057**	1,676
Derivative financial instruments	18	**14**	26
		16,873	17,001
Current liabilities			
Trade payables	25	**132**	106
Borrowings	27	**3,295**	3,930
Obligations under finance leases	28	**1,530**	1,886
Accruals, provisions and other payables	26	**3,326**	4,209
Derivative financial instruments	18	**2**	15
Current income tax liabilities		**2**	974
		8,287	11,120
Total liabilities		**25,160**	28,121
Total equity and liabilities		**52,257**	50,977

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

The financial statements on pages 39 to 102 were approved by the Board of Directors on 20 May 2016 and were signed on its behalf

Mr. Hisanori TANIGUCHI
Director

Consolidated Statement of Changes in Equity

For the Year ended 31 March 2016

	Attributable to owners of the Company						
	Share capital ¥million	Capital surplus (Note 24(a)) ¥million	Capital reserve (Note 24(b)) ¥million	Legal reserve (Note 24(c)) ¥million	Investment revaluation reserve (Note 24(d)) ¥million	Retained earnings ¥million	Total ¥million
Balance at 1 April 2014	10	12,844	(15,999)	107	566	24,272	21,800
Comprehensive income							
Profit for the year	–	–	–	–	–	3,030	3,030
Other comprehensive income							
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(155)	–	(155)
Total comprehensive income for the year	–	–	–	–	(155)	3,030	2,875
Dividend	–	–	–	–	–	(183)	(183)
Purchase of treasury shares (Note 24(e))	–	–	(29)	–	–	(497)	(526)
Reduction in capital surplus upon distribution in specie (Note 24(a))	–	(1,110)	–	–	–	–	(1,110)
Total transaction with shareholders	–	(1,110)	(29)	–	–	(680)	(1,819)
Balances at 31 March 2015 and 1 April 2015	10	11,734	(16,028)	107	411	26,622	22,856
Comprehensive income							
Profit for the year	–	–	–	–	–	181	181
Other comprehensive loss							
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(277)	36	(241)
Total comprehensive loss for the year	–	–	–	–	(277)	217	(60)
Issue of shares (Note 23(iii))	2,990	2,497	–	–	–	–	5,487
Transaction costs attributable to issuance of shares	–	(277)	–	–	–	–	(277)
Dividend	–	–	–	–	–	(909)	(909)
Total transactions with shareholders	2,990	2,220	–	–	–	(909)	4,301
Balance at 31 March 2016	3,000	13,954	(16,028)	107	134	25,930	27,097

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the Year ended 31 March 2016

	Note	2016 ¥million	2015 ¥million
Cash flows from operating activities			
Cash generated from operations	31	**4,715**	8,816
Interest paid		**(821)**	(677)
Income tax paid		**(1,736)**	(2,210)
Net cash generated from operating activities		**2,158**	5,929
Cash flows from investing activities			
Purchase of financial assets at fair value		**–**	(240)
Purchase of property, plant and equipment		**(2,117)**	(1,817)
Purchase of investment properties	14	**(43)**	(20)
Purchase of intangible assets	15	**(58)**	(53)
Proceeds from disposal of property, plant and equipment	31	**–**	200
Proceeds from disposal of financial assets at fair value		**101**	535
Proceeds from bank deposits with maturity over 3 months		**3,585**	884
Placement of bank deposits with maturity over 3 months		**(1,596)**	(1,434)
Placement of long-term bank deposits		**(60)**	(71)
Interest received		**2**	1
Dividend received		**64**	66
Net cash used in investing activities		**(122)**	(1,949)
Cash flows from financing activities			
Purchase of shares	24(e)	**–**	(526)
Proceeds from issue of new shares	23(iii)	**5,487**	–
Transaction costs directly attributable to issue of new shares	23(iii)	**(277)**	–
Distribution to the Controlling Shareholders	24(a)	**–**	(1,110)
Repayment of obligations under finance leases		**(1,215)**	(3,900)
Proceeds from bank borrowings		**15,018**	9,771
Repayment of bank borrowings		**(17,310)**	(6,961)
Dividends paid		**(909)**	(183)
Net cash generated from/(used in) financing activities		**794**	(2,909)
Net increase in cash and cash equivalents		**2,830**	1,071
Cash and cash equivalents at beginning of the year		**9,480**	8,409
Cash and cash equivalents at end of the year		**12,310**	9,480

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General Information

株式会社ニラク・ジー・シー・ホールディングス NIRAKU GC HOLDINGS, INC.* was incorporated in Japan under the Japan Companies Act with limited liability on 10 January 2013. The address of its registered office is 1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan.

The Company is an investment holding company. The Company and its subsidiaries comprising the Group (together, the "Group") are principally engaged in pachinko and pachislot hall operations and hotel operations (the "Listing Business") in Japan. The Group is also engaged in restaurant operation and other business in Japan.

The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 April 2015 (the "Listing").

These consolidated financial statements are presented in millions of Japanese Yen ("¥"), unless otherwise stated.

1.2 Reorganisation and basis of presentation

In preparation for the Listing, the Company and other companies now comprising the Group have undergone a reorganisation (the "Reorganisation") pursuant to which the Company has become the holding company of the Group.

Prior to the incorporation of the Company and the completion of the Reorganisation, the Listing Business was carried out by Niraku Corporation, Nexia Inc. and Niraku Merrist Corporation (collectively the "Operating Companies"). Before the completion of the Reorganisation, the Operating Companies were collectively controlled by Mr. Hisanori Taniguchi (the "Chairman") and (1) a group of natural persons, namely Mr. Tatsuo Taniguchi, Mr. Masataka Taniguchi, Mr. Yoshihiro Tei, Mr. Mitsuhiro Tei(1), Mr. Motohiro Tei(1), Ms. Eijun Tei(1), Ms. Rika Tei(1) and Ms. Noriko Kaneshiro, each being a family member of the Chairman; and (2) corporate entities, namely Jukki Limited, Densho Limited, Echo Limited, Daiki Limited, Hokuyo Kanko Limited and KAWASHIMA Co., Ltd., each being an entity controlled by the family members of the Chairman (collectively, the "Controlling Shareholders") who owned and controlled Niraku Corporation, Nexia Inc. and Niraku Merrist Corporation, before and after the Reorganisation.

Immediately prior to and after the Reorganisation, the Listing Business is held by the Controlling Shareholders. The Listing Business is mainly conducted through Niraku Corporation, Nexia Inc. and Niraku Merrist Corporation which are the operating entities of the Group. Pursuant to the Reorganisation, the Listing Business is transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The transactions in relation to the Reorganisation of the Listing Business has no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the consolidated financial statements of the companies now comprising the Group is prepared in accordance with IFRS 10 "Consolidated Financial Statements" issued by the International Accounting Standard Board (the "IASB"), using the carrying values of the Listing Business under the Controlling Shareholders for all periods presented.

Note(1):

Mr. Mitsuhiro Tei, Mr. Motohiro Tei, Ms. Eijun Tei and Ms. Rika Tei inherited their interests in the Company from the estate of the late Mr. Tateo Taniguchi, their father and sibling of the Chairman in October 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") issued by the IASB and has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) which are carried at fair values.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The following amendments to standards are mandatory for accounting periods beginning on or after 1 April 2015:

IAS 19 (Amendment)	Defined benefit plans: Employee contributions
IFRSs (Amendment)	Annual Improvements to IFRSs 2010–2012 Cycle
IFRSs (Amendment)	Annual Improvements to IFRSs 2011–2013 Cycle

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 April 2015 are not material to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) New standards and amendments to existing standards not yet adopted by the Group

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 April 2016 or later periods, but have not been early adopted by the Group.

		Effective for accounting year beginning on or after
IFRSs (Amendment)	Annual improvements 2012 to 2014 cycle	1 January 2016
IFRS 10 and IAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception	
IFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations	1 January 2016
IAS 16 and IAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 16 and IAS 41 (Amendment)	Agriculture: bearer plants	1 January 2016
IAS 27 (Amendment)	Equity method in separate financial statements	1 January 2016
IAS 1	Disclosure initiative	1 January 2016
IFRS 14	Regulatory deferral accounts	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

Management is in the process of making an assessment on the impact of these standards and amendments to existing IFRS and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

(c) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap.622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2.2 Subsidiaries

Consolidation

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls entities when the Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(a) Business combination under common control

The consolidated financial statements incorporates the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control combination, where there is a shorter period, regardless of the date of the common control combination.

(b) Business combination other than under common control

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(e) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements is presented in Japanese Yen ("¥"), which is the Company's functional currency and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

2.5 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

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 improvements	Shorter of lease term or useful lives
— Equipment and tools	2 to 20 years
— Motor vehicles	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "Other (losses)/gains, net" in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 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 the Group. The Group adopts the alternative treatment by using the cost model provided under the IAS 40 "Investment Property". Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of investment properties, except for the freehold land which is not subject to depreciation, is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives of 27 to 31 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of pachinko and pachislot halls represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Computer software*

Computer software is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 5 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories according to IFRS 9 "Financial Instruments": financial assets at amortised costs and financial assets at fair value. Management determines the classification of its financial assets at initial recognition. This classification depends on whether the financial asset is a debt or equity instrument.

Debt instruments

Financial assets at amortised costs are debt instruments that meet the 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. The nature of any derivatives embedded in the debt instrument are considered in determining whether the cash flows of the instrument are solely payment of principal and interest on the principal outstanding and are not accounted for separately. Other debt instruments are held-for-trading and classified as financial assets at fair value through profit or loss.

Equity instruments

All the Group's 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, the Group has made an irrevocable election at initial recognition to recognise changes in their fair value through other comprehensive income.

Financial assets are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting periods. These are classified as non-current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (Continued)

(b) Recognition, derecognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income.

Debt instruments that fulfil both the business model and the cash flow characteristic conditions are measured at amortised cost using the effective interest method. Other debt instruments are held-for-trading and measured at fair value through profit or loss.

Equity instruments are measured at fair value through profit or loss, except where the equity instruments are not held for trading and are irrevocably elected to measure at fair value through other comprehensive income at initial recognition, in which case, those financial assets are measured at fair value through other comprehensive income and there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

The Group reclassifies its financial assets when and only when its business model for managing those financial assets changes.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the consolidated statement of comprehensive income within 'Other gains/(losses) — net' in the period in which they arise. Changes in the fair value of financial assets through other comprehensive income are recognised in other comprehensive income except for the impairment loss (if any) on debt instruments which are accounted for in profit or loss.

Gain or loss (if any) on derecognition or impairment (if any) of debt instruments at amortised cost is recognised in profit or loss.

Interest income from debt instruments at fair value through profit or loss are recognised in the profit or loss. Dividend income from equity instruments included in financial assets at fair value and fair value through other comprehensive income are recognised in the profit or loss when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.11 Impairment of financial assets

Impairment charges on the Group's investment in debt instruments at amortised cost are calculated based on an expected credit loss model. The Group considers these debt instruments as trade and other receivables in nature and do not have a significant financing component. Therefore, the Group elected to recognise lifetime expected credit losses of these debt instruments as provision for impairment allowance at the end of each reporting period. The Group applies a provision matrix, which is prepared by using historical loss experience on its trade and other receivables and adjusted for information about current conditions and reasonable and supportable forecasts of future economic conditions, to estimate the lifetime expected credit losses. Impairment charge/reversal is recognised in the profit or loss.

2.12 Inventories

Inventories represent supplies, including uninstalled pachinko and pachislot machines with useful life typically less than one year, and other consumables which are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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 statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities 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. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 Current and deferred income tax

The tax expense comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (Continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) *Pension obligations*

The Group operates a defined contribution plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group has established a defined contribution plan for its eligible employees. The assets of the plan are held in separate trustee-administered funds. Contributions to the plan by the Group are calculated as a percentage of employees' monthly basic salaries. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (Continued)

(b) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(d) Long service payments

Employees who have completed the required number of years of service to the Group are eligible for long service payments.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the reporting date.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Revenue recognition

The Group recognises 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.

Revenue from pachinko and pachislot business represents the gross pay-ins, net of the gross payouts to customers. Gross pay-ins represents the amount received from customers for rental pachinko balls and pachislot tokens. Gross payouts represents the aggregate cost of G-prizes and general prizes exchanged by customers. G-prizes are decorative cards with a small embedded piece of gold or silver or coin-shaped pendants of gold or silver which can be sold by customers to a G-prize buyer for cash, and general prizes are generally the types of goods sold in convenience stores, such as snacks, drinks and cigarettes.

Customers rent pachinko balls and pachislot tokens to play the games, and the balls or tokens won can be either exchanged for prizes or saved for subsequent visits. The Group offers both general prizes and G-prizes. Customers who opt to claim G-prizes in exchange for the pachinko balls and pachislot tokens may sell their G-prizes to an independent G-prize buyer for cash outside of the pachinko hall. Revenue is recognised at the end of each player's visit to a machine.

Hotel income is recognised at the time of occupancy.

Vending machine income is recognised on a straight line basis over the accounting periods covered by the terms and conditions as stipulated in the agreement. Contingent vending machine income is recognised when the Group sells a product to the customer.

Restaurant income is recognised when catering services have been provided to customers.

Rental income from investment properties is recognised on a straight-line basis over the term of the leases.

Interest income is recognised on a time-proportion basis using the effective interest method.

Income from expired prepaid integrated circuit ("IC") and membership cards is recognised upon the expiry of the usage period.

Dividend income is recognised when the right to receive payment is established.

Sundry income is recognised when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight- line basis over the expected lives of the related assets.

2.23 Leases

(a) As lessee

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 statement of comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has 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 statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest 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.

(b) As lessor

When the Company leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to the nature of the assets. Revenue arising from assets leased out under operating leases is recognised over the term of the lease on a straight-line basis.

2.24 Dividend distribution

Dividend distribution to the Company's/certain subsidiaries' shareholders is recognised as a liability in the Group's, the Company's and certain subsidiaries' financial statements in the period in which the dividends are approved by the Company's/certain subsidiaries' shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge its financial risks.

Risk management is carried out by management of the Group. Formal and informal management meetings are held to identify significant risks and to develop procedures to deal with any risks in relation to the Group's businesses.

(a) Market risk

(i) Foreign exchange risk

The Group operates principally in Japan. It is exposed to foreign exchange risk primarily with respect to cash and cash equivalents denominated in Hong Kong dollar ("HK$") and US dollar ("US$").

At 31 March 2016, if HK$ had strengthened/weakened by 5% against the Japanese Yen, with all other variables held constant, post-tax profit for the year would have been approximately ¥5 million, higher or lower (for the year ended 31 March 2015: ¥2 million), mainly as a result of foreign exchange differences on translation of HK$ denominated cash at bank balance.

At 31 March 2016, if US$ had strengthened/weakened by 5% against the Japanese Yen, with all other variables held constant, post-tax profit for the year would have been approximately ¥10 million, higher or lower (for the year ended 31 March 2015: ¥Nil), mainly as a result of foreign exchange differences on translation of US$ denominated cash at bank balance.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank balances and borrowings which are carried at variable rates, which expose the Group to cash flow interest rate risk.

As at 31 March 2016, if interest rates were increased or decreased by 25 basis points and all other variables were held constant, the Group's pre-tax profit would decrease or increase by approximately ¥1 million (2015: ¥8 million) as a result of increase or decrease in net interest expense.

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses derivatives such as interest rate swaps to manage its interest rate exposure. The Group's main interest rate exposure relates to Japanese Yen-denominated borrowings. In the opinion of the directors, fair value interest rate risk is low as the amounts of interest rate swaps are insignificant during the year ended 31 March 2016 (2015: Same), and accordingly, sensitivity analysis has not been disclosed.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk

The Group is exposed to equity securities price risk because of investments in listed securities held by the Group which are classified on the consolidated statement of financial position as financial assets at fair value through other comprehensive income.

The table below summarises the impact of increases/decreases of the share prices of underlying financial instruments on the Group's equity. The analysis is based on the assumption that the share prices of the underlying financial instruments had increased or decreased by 5% with all other variables held constant.

	2016	2015
	¥ million	¥ million
Impact on other components of equity		
Share prices:		
— increase by 5%	**44**	62
— decrease by 5%	**(44)**	(62)

(b) 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 98% (2015: 99%) of the Groups revenue is received in cash. The Group's credit risk mainly arises from vending machine income receivable from vending machines providers.

As at 31 March 2016, top 5 customers of the Group accounted for approximately 74% (2015: 59%) to the trade receivables of the Group. The Group has 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. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position.

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, committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the Group's 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.

	Within 1 year ¥ million	Between 1 and 2 years ¥ million	Between 2 and 5 years ¥ million	Over 5 years ¥ million	Total ¥ million
As at 31 March 2016					
Trade payables	**132**	**–**	**–**	**–**	**132**
Other payables (excluding accruals)	**1,702**	**2**	**17**	**3,711**	**5,432**
Borrowings	**3,451**	**2,289**	**5,170**	**2,680**	**13,590**
Obligations under finance leases	**1,784**	**1,336**	**2,271**	**2,579**	**7,970**
	7,069	**3,627**	**7,458**	**8,970**	**27,124**
As at 31 March 2015					
Trade payables	106	–	–	–	106
Other payables (excluding accruals)	2,284	4	42	3,228	5,558
Borrowings	4,303	3,229	6,020	3,188	16,740
Obligations under finance leases	2,114	1,378	1,967	1,317	6,776
	8,807	4,611	8,029	7,733	29,180

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group uses bank borrowings to finance its operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by equity. Total debt is calculated as total borrowings (include bank borrowings and obligations under finance leases). Equity is calculated as 'equity' as shown in the consolidated statement of financial position.

The Group's strategy is to maintain optimal gearing ratio where the gearing ratio is not higher than 100% as at each statement of financial position date. The gearing ratios as at 31 March 2016 and 2015 were as follows:

	2016	2015
	¥ million	¥ million
Borrowings	**13,027**	15,248
Obligations under finance leases	**6,600**	5,867
Total debt	**19,627**	21,115
Equity	**27,097**	22,856
Gearing ratio	**72%**	92%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	Total ¥ million
As at 31 March 2016				
Assets				
Financial assets at fair value through profit or loss				
— Debt securities	**–**	**100**	**–**	**100**
— Unlisted securities	**–**	**106**	**–**	**106**
Financial assets at fair value through other comprehensive income				
— Listed securities	**883**	**–**	**–**	**883**
— Unlisted securities	**–**	**–**	**130**	**130**
	883	**206**	**130**	**1,219**
Liabilities				
Derivative financial liabilities				
— Interest rate swaps	**–**	**16**	**–**	**16**
As at 31 March 2015				
Assets				
Financial assets at fair value through profit or loss				
— Debt securities	–	201	–	201
— Unlisted securities	–	100	–	100
Financial assets at fair value through other comprehensive income				
— Listed securities	1,238	–	–	1,238
— Unlisted securities	–	140	–	140
	1,238	441	–	1,679
Liabilities				
Derivative financial liabilities				
— Interest rate swaps	–	41	–	41

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 represent Tokyo Stock Exchange and the Stock Exchange of Hong Kong equity investments classified as fair value through other comprehensive income which were not held for trading purpose.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at 31 March 2016, instruments included in level 2 comprise bonds, trust funds and interest rate swaps issued by a financial institution in Japan which were classified as financial assets at fair value through profit or loss.

There were no transfers between levels 1 and 2 during the years ended 31 March 2016 and 2015.

(c) *Financial instruments in level 3*

The following table presents the changes in level 3 instruments for the year ended 31 March 2016.

	Financial assets at fair value through other comprehensive income ¥million
Opening balance as at 1 April 2015	–
Transfer into level 3	140
Loss recognised in other comprehensive income	(10)
Closing balance as at 31 March 2016	130

As at 31 March 2016, the Group valued its investment in the unlisted private company's equity shares based on its net asset value as the Group has determined that the reported net asset value represents fair value at the end of the reporting period. The investment was measured using valuation technique based on observable market data in the preceding year.

3.4 Offsetting financial assets and financial liabilities

As at 31 March 2016 and 2015, there were no financial assets or financial liabilities which were subject to offsetting, enforceable master netting or similar agreements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, 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 are addressed below.

(a) Income taxes

The Group is subject to income taxes in Japan. Significant judgement 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.

(b) 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. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(c) Impairment assessment of property, plant and equipment

The Group has substantial investments in property, plant and equipment. Judgement 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 continued 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. Changing the assumptions used to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's 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.

(d) Classification of leases

The Group has numerous buildings for pachinko and pachislot machines arranged under finance leases. The Group classifies leases into finance leases or operating leases in accordance with the accounting policies stated in Note 2.23. Classification as a finance lease or operating lease determines whether the leased asset is capitalised and recognised on the statement of financial position or charged to the profit or loss. Determining whether a lease transaction is a finance lease or an operating lease is a complex issue and requires substantial judgement as to whether the lease agreement transfers substantially all the risks and rewards of ownership to or from the Group. Careful and considered judgement is required on various complex aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether renewal options are included in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2016 ¥ million	2015 ¥ million
Revenue		
Gross pay-ins	**158,095**	175,592
Less: gross pay-outs	**(127,900)**	(143,473)
Revenue from pachinko and pachislot hall business	**30,195**	32,119
Vending machine income	**588**	592
Revenue from hotel operation	**164**	154
Revenue from restaurant operations	**48**	21
	30,995	32,886

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used for making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a service perspective and assess the performance of the operating segments based on a measure of adjusted profit before tax before unallocated corporate expenses for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as this consolidated financial statements.

Management has identified two reportable segments based on the types of services, namely (i) pachinko and pachislot hall operations and (ii) others, representing hotel and restaurant operations.

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, trade receivables, prepayments, deposits and other receivables, pledged deposits and cash and bank balances. They exclude deferred income tax assets and assets used for corporate functions including financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Capital expenditure comprises additions to property, plant and equipment, investment properties and intangible assets. Unallocated corporate expenses and income tax expenses are not included in segment results.

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment information provided to the executive directors for the years ended 31 March 2016 and 2015 are as follows:

	Year ended 31 March 2016		
	Pachinko and pachislot hall operations ¥ million	**Others ¥ million**	**Total ¥ million**
Segment revenue from external customers	**30,783**	**212**	**30,995**
Segment results	**1,703**	**(121)**	**1,582**
Corporate expenses			**(949)**
Profit before income tax			**633**
Income tax expense			**(452)**
Profit for the year			**181**
Other segment items			
Depreciation and amortisation expenses	**(2,360)**	**(91)**	**(2,451)**
Finance income	**54**	**–**	**54**
Finance costs	**(892)**	**–**	**(892)**
Capital expenditures	**4,197**	**9**	**4,206**

	Year ended 31 March 2015		
	Pachinko and pachislot hall operations ¥ million	Others ¥ million	Total ¥ million
Segment revenue from external customers	32,711	175	32,886
Segment results	5,997	(56)	5,941
Corporate expenses			(947)
Profit before income tax			4,994
Income tax expense			(1,964)
Profit for the year			3,030
Other segment items			
Depreciation and amortisation expenses	(2,040)	(25)	(2,065)
Finance income	119	–	119
Finance costs	(735)	–	(735)
Capital expenditures	3,555	73	3,628

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

The segment assets as at 31 March 2016 and 2015 are as follows:

	Pachinko and pachislot hall operations ¥ million	Others ¥ million	Total ¥ million
As at 31 March 2016			
Segment assets	**44,166**	**532**	**44,698**
Unallocated assets			**5,778**
Deferred income tax assets			**1,781**
Total assets			**52,257**
As at 31 March 2015			
Segment assets	45,919	664	46,583
Unallocated assets			2,623
Deferred income tax assets			1,771
Total assets			50,977

No single external customer contributed more than 10% revenue to the Group's revenue for the year ended 31 March 2016 and 2015.

The Group is domiciled in Japan and all non-current assets of the Group as at 31 March 2016 and 2015 are located in Japan.

Notes to the Consolidated Financial Statements

6 OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

	2016	2015
	¥ million	¥ million
Other income		
Rental income	**152**	151
Income from expired IC and membership cards	**35**	35
Dividend income	**64**	66
Compensation and subsidies (Note)	**308**	626
Income from scrap sales of used pachinko and pachislot machines	**192**	133
Others	**19**	28
	770	1,039
Other (losses)/gains, net		
Gain on fair value for financial assets at fair value through profit or loss	**6**	1
Loss on disposal of financial assets at fair value through profit or loss	**–**	(7)
(Loss)/gain on fair value for derivative financial instruments	**(16)**	7
Gain on disposal of derivative financial instruments	**6**	–
Loss on disposal of property, plant and equipment	**(57)**	(27)
Net exchange (loss)/gain	**(211)**	29
	(272)	3

Note: During the year ended 31 March 2016, compensation was mainly received from the government for closure of a hall due to city planning. For the year ended 31 March 2015, compensation and subsidies were mainly received from the government and Tokyo Electric Power Company for the massive earthquake and tsunami that occurred on 11 March 2011 (the "Great East Japan Earthquake"). The disaster caused significant damages to certain property, plant and equipment and inventories in pachinko and pachislot halls located principally in the north-eastern Japan.

7 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2016	2015
	¥ million	¥ million
Auditors' remuneration		
— Audit fees	**60**	60
— Audit related fees	**–**	234
— Other services	**24**	46
Employee benefits expenses		
— Hall operations	**5,081**	4,841
— Administrative and others	**1,556**	2,042
Operating lease rental expense in respect of land and buildings	**2,841**	2,578
Depreciation of property, plant and equipment	**2,387**	2,019
Depreciation of investment properties	**27**	15
Amortisation of intangible assets	**37**	31
Reinstatement expenses	**26**	21
Recruitment expenses	**218**	183
Travelling and transportation	**169**	151
Other taxes and duties	**481**	455
Repairs and maintenance	**240**	206
Utilities expenses	**1,133**	1,136
Consumables and cleaning	**1,735**	1,552
Outsourcing service expenses	**1,065**	1,101
G-Prize procurement expenses to wholesalers	**802**	798
Pachinko and pachislot machines expenses (Note)	**9,619**	8,399
Advertising expenses	**1,450**	1,348
Service fee (Note 34)	**33**	–
Impairment loss on property, plant and equipment	**317**	–
Legal and professional fees	**35**	38
Professional expenses incurred in connection with the Company's listing	**84**	420
Others	**602**	644
	30,022	28,318

Note: Pachinko and pachislot machines are expensed off in the consolidated statement of comprehensive income upon installation. The expected useful lives of these machines are less than one year.

8 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2016	2015
	¥ million	¥ million
Salaries, bonuses and allowances	**5,378**	5,584
Pension costs — defined contribution plan	**72**	66
Other employee benefits	**1,187**	1,233
	6,637	6,883

(a) Pension costs — defined contribution plans

The Company and its subsidiaries operate a defined contribution plan which covers all full-time employees and directors. No forfeited contribution was incurred during the year (2015: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2016 include 1 (2015: 3) directors whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining 4 (2015: 2) individuals during the year ended 31 March 2016 are as follows:

	2016	2015
	¥ million	¥ million
Salaries, allowances and other benefits	**80**	25
Bonuses	**1**	–
Pension cost — defined contribution plan	**3**	2
	84	27

* Insignificant amount less than ¥1 million

The number of highest paid individuals whose remuneration fell within the following band is as follows:

	Number of individuals	
	2016	2015
Emolument bands		
¥10,000,001 to ¥15,000,000 (equivalent to approximately HK$680,000 to HK$1,020,000)	**1**	2
¥20,000,001 to ¥25,000,000 (equivalent to approximately HK$1,360,000 to HK$1,700,000)	**1**	–
¥30,000,001 to ¥35,000,000 (equivalent to approximately HK$1,700,001 to HK$2,380,000)	**2**	–

9 FINANCE COSTS, NET

	2016 ¥ million	2015 ¥ million
Finance income		
Bank interest income	**2**	1
Other interest income	**52**	118
	54	119
Finance costs		
Bank borrowings	**(523)**	(340)
Bond interest expense	**(2)**	(7)
Obligations under finance leases	**(296)**	(330)
Provision for unwinding discount	**(71)**	(58)
	(892)	(735)
Finance costs, net	**(838)**	(616)

10 INCOME TAX EXPENSE

	2016 ¥ million	2015 ¥ million
Current tax		
— Japan corporate income tax	**302**	2,155
Deferred income tax (Note 29)	**150**	(191)
	452	1,964

Japan corporate income tax has been calculated on the estimated assessable profit for the years ended 31 March 2016 and 2015 at the rates of taxation prevailing in Japan in which the Group operates.

No provision for Hong Kong Profits Tax has been made for the years ended 31 March 2016 and 2015 as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 March 2016 and 2015.

10 INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Japan as follows:

	2016	2015
	¥ million	¥ million
Profit before income tax	**633**	4,994
Tax calculated at applicable Japan corporate income tax rate	**204**	1,759
Income not subject to tax	**(4)**	(11)
Expenses not deductible for tax purpose	**32**	26
Unrecognised tax losses	**76**	115
Utilisation of previously unrecognised tax losses	**–**	(20)
Effect of change in tax rate	**163**	162
Tax deduction	**(19)**	(67)
	452	1,964

The Group is subject to national corporate income tax, inhabitants tax, and enterprise tax in Japan, which, in aggregate, resulted in effective statutory income tax rates of approximately 32.3% (2015: 35.2%) for the year ended 31 March 2016.

As a result of the 2016 Tax Reform that was approved on 29 March 2016, the national corporate income tax rate of Japan will be reduced from 23.9% to 23.4% from fiscal years beginning on or after 1 April 2016, followed by a further rate reduction from 1 April 2018 to 23.3%.

Notes to the Consolidated Financial Statements

11 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 March 2016 and 2015.

The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 March 2015 has been retrospectively adjusted to reflect sub-division of every issued share of nil par value into 230 shares of nil par value with effect from 31 March 2015 (Note 23).

	2016	2015
Profit attributable to shareholders of the Company (¥ million)	**181**	3,030
Weighted average number of ordinary shares in issue (thousands)	**895,850**	3,895
Effect of sub-division of shares	**–**	891,955
Weighted average number of new shares in issue (thousands)	**294,262**	–
Weighted average number of shares for the purpose of calculating basic earnings per share (thousands)	**1,190,112**	895,850
Basic and diluted earnings per share (Japanese Yen)	**0.15**	3

No diluted earnings per share is presented as there was no potential dilutive shares during the years ended 31 March 2016 and 2015. Diluted earnings per share is equal to the basic earnings per share.

12 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 March 2016 and 2015:

Name	Country and date of incorporation	Principal activities	Type of legal status	Issued and paid up capital	Effective interest held as at 31 March 2016	2015
Directly held						
Niraku Corporation	Japan 27 August 1969	Pachinko and pachislot hall operations	Limited liability company	257 million Japanese Yen	**100%**	100%
Indirectly held						
Nexia Inc.	Japan 19 June 2009	Property investment	Limited liability company	30 million Japanese Yen	**100%**	100%
Niraku Merrist Corporation	Japan 24 February 2010	Provision of cleaning service	Limited liability company	5 million Japanese Yen	**100%**	100%

Notes to the Consolidated Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land ¥ million	Buildings ¥ million	Leasehold improvements ¥ million	Equipment and tools ¥ million	Motor vehicles ¥ million	Construction in progress ¥ million	Total ¥ million
At 1 April 2014							
Cost	7,389	15,261	10,476	10,719	250	52	44,147
Accumulated depreciation and provision for impairment	–	(5,910)	(5,908)	(6,345)	(167)	–	(18,330)
Net book amount	7,389	9,351	4,568	4,374	83	52	25,817
Year ended 31 March 2015							
Opening net book amount	7,389	9,351	4,568	4,374	83	52	25,817
Transfer	–	801	1,188	–	–	(1,989)	–
Additions	363	19	–	1,200	13	1,960	3,555
Disposals	–	(195)	(26)	(6)	–	–	(227)
Depreciation (Note 7)	–	(535)	(556)	(896)	(32)	–	(2,019)
Closing net book amount	7,752	9,441	5,174	4,672	64	23	27,126
At 1 April 2015							
Cost	7,752	15,460	11,608	11,896	167	23	46,906
Accumulated depreciation and provision for impairment	–	(6,019)	(6,434)	(7,224)	(103)	–	(19,780)
Net book amount	7,752	9,441	5,174	4,672	64	23	27,126
Year ended 31 March 2016							
Opening net book amount	**7,752**	**9,441**	**5,174**	**4,672**	**64**	**23**	**27,126**
Transfer	**–**	**289**	**516**	**–**	**–**	**(805)**	**–**
Additions	**–**	**1,887**	**455**	**919**	**33**	**811**	**4,105**
Disposals	**–**	**(1)**	**(41)**	**(15)**	**–**	**–**	**(57)**
Impairment (Note 7)	**(189)**	**(51)**	**(46)**	**(31)**	**–**	**–**	**(317)**
Depreciation (Note 7)	**–**	**(704)**	**(703)**	**(950)**	**(30)**	**–**	**(2,387)**
Closing net book amount	**7,563**	**10,861**	**5,355**	**4,595**	**67**	**29**	**28,470**
At 31 March 2016							
Cost	**7,752**	**17,515**	**12,346**	**12,433**	**165**	**29**	**50,240**
Accumulated depreciation and provision for impairment	**(189)**	**(6,654)**	**(6,991)**	**(7,838)**	**(98)**	**–**	**(21,770)**
Net book amount	**7,563**	**10,861**	**5,355**	**4,595**	**67**	**29**	**28,470**

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expenses of ¥2,320 million (2015: ¥1,937 million) has been charged in "hall operating expenses" and ¥67 million (2015: ¥82 million) has been charged in "administrative and other operating expenses" for the year ended 31 March 2016.

Construction in progress as at 31 March 2016 represents pachinko and pachislot halls being constructed in Japan.

The net carrying amount of the Group's property, plant and machinery that were pledged for the banking facilities granted to the Group for the year ended 31 March 2016 and 2015 has been disclosed in Note 27.

The Group's property, plant and equipment held under finance leases included in the total amount of buildings were as follows:

	2016 **¥ million**	2015 ¥ million
Buildings		
Cost — capitalised finance leases	**6,864**	5,257
Accumulated depreciation	**(2,442)**	(2,192)
	4,422	3,065

The Group carried out reviews of the recoverable amounts of each cash-generating unit ("CGU"), which is determined as each individual pachinko and pachislot hall, a pachinko and pachislot hall with hotel business and a restaurant.

For the year ended 31 March 2016, in view that some of the CGUs in Japan are performing below management's expected budget and continuously making operating losses, the directors have reviewed the recoverability of the relevant carrying amounts of these loss-making CGUs.

The recoverable amount of a CGU is determined based on the fair value less cost to sell or value-in-use of calculation, whichever is higher. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The key assumptions used in the value-in-use calculation for the years ended 31 March 2016 and 2015.

	2016	2015
Revenue growth rate	**0%**	0%
Discount rate	**9.3%**	9.2%

The discount rates applied by the Group are rates that reflect current market assessment of the time value of money and the risk specific to the CGUs. Revenue growth rate is based on past practices and expectations on market and operational development.

Impairment loss recognised for the year ended 31 March 2016 amounted to ¥317 million (2015: nil).

If the forecast revenue was lower by 5%, with all other variables held constant, the recoverable amount of the CGUs would have recognised further impairment against property, plant and equipment of ¥26 million.

Notes to the Consolidated Financial Statements

14 INVESTMENT PROPERTIES

	2016 ¥ million	2015 ¥ million
At 1 April		
Cost	**811**	791
Accumulated depreciation	**(130)**	(115)
	681	676
At cost		
At beginning of year	**681**	676
Additions	**43**	20
Depreciation	**(27)**	(15)
At end of year	**697**	681
At 31 March		
Cost	**854**	811
Accumulated depreciation	**(157)**	(130)
	697	681

The investment properties have been pledged to secure general facilities granted to the Company (Note 27).

The Group had no unprovided contractual obligations for future repairs and maintenance as at 31 March 2016 and 2015.

Investment properties are situated in Japan and rented out under operating lease. Amounts recognised in profit and loss for investment properties are as follows:

	As at 31 March 2016 ¥ million	 2015 ¥ million
Rental income	**96**	95
Direct operating expenses from property that generated rental income	**(27)**	(16)
	69	79

14 INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties were valued as at 31 March 2016 and 2015 by independent professionally qualified valuers, Cushman & Wakefield K.K. and DTZ Debenham Tie Leung ("DTZ"), respectively, who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued. The valuations were determined using the income capitalisation approach (term and reversionary method) which largely used observable and unobservable inputs, including market rent, yield and estimation in vacancy rate after expiry of current lease. Such fair values estimation of investment properties are categorised under level 3 of the fair value hierarchy.

The Group's finance department includes a team that review the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC, the valuation team and valuers at least annually.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

Where the valuation results indicate that the carrying amount of the investment properties exceed its recoverable amount, impairment loss will be recognised by the Group.

The fair value of the investment properties at 31 March 2016 is ¥763 million (2015: ¥755 million). No impairment loss was recognised.

15 INTANGIBLE ASSETS

	Goodwill ¥ million	Computer software ¥ million	Total ¥ million
At 1 April 2014			
Cost	104	605	709
Accumulated amortisation	–	(542)	(542)
Net book amount	104	63	167
Year ended 31 March 2015			
Opening net book amount	104	63	167
Additions	–	53	53
Amortisation (Note 7)	–	(31)	(31)
Closing net book amount	104	85	189
At 1 April 2015			
Cost	104	634	738
Accumulated amortisation	–	(549)	(549)
Net book amount	104	85	189
Year ended 31 March 2016			
Opening net book amount	**104**	**85**	**189**
Additions	**–**	**58**	**58**
Amortisation (Note 7)	**–**	**(37)**	**(37)**
Closing net book amount	**104**	**106**	**210**
At 31 March 2016			
Cost	**104**	**608**	**712**
Accumulated amortisation	**–**	**(502)**	**(502)**
Net book amount	**104**	**106**	**210**

Intangible assets represent computer software and goodwill arising from purchase of 2 pachinko and pachislot halls from certain third parties. Amortisation expenses relating to computer software of ¥37 million (2015: ¥31 million) has been charged in "hall operating expenses" for the year ended 31 March 2016.

15 INTANGIBLE ASSETS (CONTINUED)

Goodwill is allocated to each CGU, which is determined as each individual pachinko and pachislot hall. Management reviews annually whether the carrying amount of a CGU is higher than the recoverable amount which results in impairment of goodwill. The recoverable amount of a CGU is determined based on value-in-use calculation. The calculation use pre-tax cash flow projections based on financial budget approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated in Note 13. As a result of the impairment review, the recoverable amounts of the CGUs in which goodwill has been allocated are higher than their carrying amounts as at 31 March 2016 and 2015. As a result, no impairment loss was charged during the years ended 31 March 2016 and 2015.

16 FINANCIAL INSTRUMENTS BY CATEGORY

	2016	2015
	¥ million	¥ million
Financial assets		
Financial assets at fair value		
Fair value through profit or loss	**206**	301
Fair value through other comprehensive income	**1,013**	1,378
	1,219	1,679
Financial assets at amortised cost		
Trade receivables	**64**	52
Deposits and other receivables	**3,208**	3,782
Cash and bank balances	**12,792**	11,891
	16,064	15,725
	17,283	17,404
Financial liabilities		
Financial liabilities at fair value		
Derivative financial instruments	**16**	41
Other financial liabilities at amortised cost		
Trade payables	**132**	106
Other payables	**3,728**	3,937
Borrowings	**13,027**	15,248
Obligations under finance leases	**6,600**	5,867
	23,487	25,158
	23,503	25,199

17 FINANCIAL ASSETS AT FAIR VALUE

(a) Financial assets at fair value through profit or loss

	2016 ¥ million	2015 ¥ million
Debt securities	**100**	201
Unlisted securities	**106**	100
	206	301
Less: non-current portion	**(106)**	(201)
Current portion	**100**	100

Change in fair value of financial assets at fair value through profit or loss are recorded in "other (losses)/gains, net" in the consolidated statement of comprehensive income (Note 6).

The fair values of these debt and equity securities are determined by discounted cash flow approach.

(b) Financial assets at fair value through other comprehensive income

	2016 ¥ million	2015 ¥ million
Listed securities		
— Equity securities	**883**	1,238
Unlisted securities		
— Equity securities	**130**	140
	1,013	1,378

Changes in fair values of financial assets at fair value through other comprehensive income are recorded in "investment revaluation reserves" in the consolidated statement of changes in equity.

The fair value of all equity securities is based on the current bid prices.

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18 DERIVATIVE FINANCIAL INSTRUMENTS

	2016	2015
	¥ million	¥ million
Interest rate swaps	**16**	41
Less: non-current portion	**(14)**	(26)
Current portion	**2**	15

Derivative financial instruments are utilised by the Group in the management of its interest rate exposures. The Group's policy is not to utilise derivative financial instruments for trading or speculative purposes. The Group has entered into interest rate swaps agreement with banks mainly to swap floating interest rate borrowings to fixed interest rate borrowings to manage the fixed and floating interest rate mix of the Group's total debt portfolio. As at 31 March 2016, the notional amount of the outstanding interest rate swaps agreement with the banks amounted to ¥2,400 million (2015: ¥2,873 million).

19 INVENTORIES

	2016	2015
	¥ million	¥ million
Supplies	**413**	719

The cost of inventories recognised as expenses and included in "hall operating expenses" amounted to ¥9,619 million (2015: ¥8,399 million) and "administration and other operating expenses" amounted to ¥1 million (2015: ¥3 million) for the year ended 31 March 2016.

20 TRADE RECEIVABLES

	2016	2015
	¥ million	¥ million
Trade receivables	**64**	57
Less: provision for impairment of trade receivables	**–**	(5)
	64	52

Trade receivables represent income receivable from vending machines. The credit terms granted by the Group generally ranged from 0 to 30 days.

The creation and release of provision for impaired receivables have been included in "administrative and other operating expenses" in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering the amount.

20 TRADE RECEIVABLES (CONTINUED)

As at 31 March 2016 and 2015, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	2016	2015
	¥ million	¥ million
Less than 30 days	**64**	49
Over 90 days	**–**	8
	64	57

As at 31 March 2016, no trade receivables was past due or impaired. As at 31 March 2015, trade receivables of ¥3 million were past due but not impaired. These related to a number of independent customers for whom there was no significant financial difficulty at the time and based on past experience, the overdue amounts could be recovered. The ageing analysis of these trade receivables, based on due date, is as follows:

	2016	2015
	¥ million	¥ million
Overdue but not impaired		
Over 90 days	**–**	3

The maximum exposure to credit risk at the reporting date is the carrying value of the receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of trade receivables approximate their fair values as at 31 March 2016 and 2015; and are denominated in Japanese Yen.

Notes to the Consolidated Financial Statements

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	¥ million	¥ million
Non-current portion		
Rental and other deposits	**2,748**	3,408
Rental prepayments	**1,298**	1,233
Loans to other employees	**1**	1
Other prepayments and receivables	**151**	130
	4,198	4,772
Current portion		
Prepayment for prizes in operation for pachinko and pachislot halls	**604**	700
Rental prepayments	**448**	450
Loans to other employees	**1**	1
Prepayments for professional fee incurred in connection with the Company's listing	**–**	149
Other prepayments and receivables	**403**	302
	1,456	1,602

The carrying amounts of prepayment, deposits and other receivables approximate their fair values as at 31 March 2016 and 2015; and are denominated in Japanese Yen.

Certain deposits and other receivables have been pledged to secure general facilities granted to the Company (Note 27).

Notes to the Consolidated Financial Statements

22 CASH AND BANK BALANCES

	2016 ¥ million	2015 ¥ million
Non-current portion		
Bank deposits with maturity over 1 year	**185**	125
Current portion		
Bank deposits with maturity over 3 months	**297**	1,186
Pledged bank deposits (Note 28)	**–**	1,100
	297	2,286
Cash on hand	**909**	887
Cash at banks	**10,194**	8,593
Short term bank deposits	**1,207**	–
Cash and cash equivalents	**12,310**	9,480
Total cash and bank balances	**12,792**	11,891

(a) The pledged bank deposits are held in designated bank accounts mainly for the Group's banking facilities (Note 27).

(b) The carrying amounts of bank deposits with maturity over 3 months, short term bank deposits, cash and bank balances and pledged deposits are denominated in the following currencies:

	2016 ¥ million	2015 ¥ million
Japanese Yen	**12,309**	11,819
United States dollar	**325**	–
Hong Kong dollar	**158**	–
Others	**–**	72
	12,792	11,891

23 SHARE CAPITAL

	Note	Ordinary No. of shares	Veto No. of shares	Total No. of shares
Ordinary shares, issued and fully paid:				
At 1 April 2014		3,895,001	1	3,895,002
Conversion of veto share to ordinary share	(i)	1	(1)	–
Share sub-division	(ii)	891,955,458	–	891,955,458
At 31 March 2015		895,850,460	–	895,850,460
Issue of new shares	(iii)	300,000,000	–	300,000,000
At 31 March 2016		1,195,850,460	–	1,195,850,460

	Note	Ordinary	Veto	Total
Total amount (in Japanese Yen)				
At 31 March 2015		10,000,000	–	10,000,000
At 31 March 2016	(iii)	3,000,000,000	–	3,000,000,000

(i) Pursuant to the resolutions of the board of directors dated 9 December 2014, the directors resolved to cancel the one class-A share (veto share) and convert it into one newly issued common share, which was allotted to our Chairman on the same day. As a result, our total number of issued shares became 3,895,002 common shares. Pursuant to the Articles of Incorporation, the Company is not allowed to issue any other class of shares other than the common shares after the Listing.

(ii) Pursuant to the resolutions of the board of directors dated 16 March 2015, the directors approved: (i) the increase of the number of shares authorised was issued by the Company from 20,000,000 shares to 2,000,000,000 shares; and (ii) the sub-division of every issued share of nil par value in the share capital into 230 shares of nil par value, such that the issued share capital of the Company increased from 3,895,002 shares to 895,850,460 shares. The sub-division took effect on 31 March 2015.

(iii) In connection with the Company's initial public offering, 300,000,000 shares were issued at a price of HK$1.18 per share for a total cash consideration, before listing expenses, of HK$354 million (equivalent to approximately ¥5,487 million). The directors resolved that ¥2,990 million and ¥2,497 million were allocated to share capital and capital surplus respectively. Dealings of these shares on the Stock Exchange commenced on 8 April 2015.

24 RESERVES

(a) Capital surplus

Under the Japan Companies Act, certain portion of the consideration from the issuance of share capital shall be credited to the share capital and the remaining of the consideration shall be credited to capital surplus.

On 17 September 2014, Niraku Corporation transferred certain tangible assets totalling ¥1,110 million, which, amongst others, included the entire issued stock of Niraku USA Inc. to Niraku Investment Inc.

On the same date, the Company declared and distributed a distribution in specie out of its capital surplus by way of distributing 3,895,002 shares in Niraku Investment Inc., representing its entire number of issued shares, to the Controlling Shareholders. Since then, the businesses of Niraku Investment Inc. and Niraku USA Inc. that were not related to the core business of pachinko halls operation under the Company were excluded from the Group.

(b) Capital reserve

Capital reserve represents the difference between the value of net assets of the subsidiary acquired by the Company and the share capitals in acquired subsidiaries under common control.

(c) Legal reserve

The Japan Companies Act provides that a 10% dividend paid during the year shall be appropriated as legal reserve (a component of either capital surplus or retained earnings) until an aggregate amount of legal capital reserve and legal retained earnings equals 25% of share capital. The legal reserve may be used to reduce a deficit or transfer to share capital upon approval of the general meeting of shareholders.

(d) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of financial assets through other comprehensive income held at the end of the reporting period.

(e) Purchase of treasury shares

On 29 September 2014, Nexia Inc. resolved to repurchase 2,550 issued shares for cash consideration of approximately ¥497 million upon the approval by the board of directors of Nexia Inc. The repurchase of shares resulted in reduction in retained earnings of ¥497 million during the year ended 31 March 2015. On 30 September 2014, Nexia Inc. cancelled all of these shares.

On 29 September 2014, Niraku Corporation purchased 150 issued shares of Nexia Inc. from Mr. Tatsuo Taniguchi at cash consideration of approximately ¥29 million.

25 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 31 March 2016 and 2015 were as follows:

	2016	2015
	¥ million	¥ million
Less than 30 days	**49**	31
31–90 days	**83**	75
	132	106

The carrying amounts of trade payables approximate their fair values as at 31 March 2016 and 2015; and are denominated in Japanese Yen.

26 ACCRUALS, PROVISIONS AND OTHER PAYABLES

	2016	2015
	¥ million	¥ million
Non-current portion		
Provision for reinstatement costs	**1,932**	1,529
Provision for long service payment	**32**	25
Vending machine rental deposit and rental receipt in advance	**78**	86
Other payables	**15**	36
	2,057	1,676
Current portion		
Accrued purchases for pachinko and pachislot machines	**654**	487
Accrued purchases for property, plant and equipment	**11**	566
Accrued staff costs	**807**	766
Vending machine rental receipt in advance	**203**	244
Unutilised balls and tokens	**628**	544
Other tax payable	**415**	767
Office expenses and consumables	**497**	464
Utilities payable	**83**	53
Other payables	**28**	318
	3,326	4,209

The carrying amounts of other payables approximate their fair values as at 31 March 2016 and 2015; and are denominated in Japanese Yen.

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27 BORROWINGS

	2016	2015
	¥ million	¥ million
Non-current portion		
Bank loans	**1,945**	5,214
Syndicated loans	**7,787**	5,593
Bonds	**–**	511
	9,732	11,318
Current portion		
Bank loans	**1,682**	2,822
Syndicated loans	**1,336**	985
Bonds	**277**	123
	3,295	3,930
Total borrowings	**13,027**	15,248

As at 31 March 2016 and 2015, the Group's borrowings were repayable as follows:

	2016	2015
	¥ million	¥ million
Within 1 year	**3,295**	3,930
Between 1 and 2 years	**2,178**	2,944
Between 2 and 5 years	**4,933**	5,398
Over 5 years	**2,621**	2,976
	13,027	15,248

The average effective interest rates (per annum) at the end of each reporting period were set out as follows:

	2016	2015
Bank loans	**2.3%**	2.6%
Syndicated loans	**1.1%**	2.3%
Bonds	**2.3%**	2.0%

27 BORROWINGS (CONTINUED)

As at 31 March 2016, the borrowings under sales and leaseback arrangements with a third party lessor amounted to ¥2,275 million (2015: ¥1,409 million). These sales and leaseback arrangements included sell of certain leasehold improvements and pachislot machines at an aggregate consideration of ¥2,801 million and were leased back to the Group for a total lease payment of ¥2,979 million covering the periods of 24 months to 84 months. During the lease period, the Group cannot transfer or pledge to any party the relevant leasehold improvements and pachislot machines. For leasehold improvement, the Group has an option to renew for a further term of 1 year on the 20th of the preceding month before the end of each lease term at no cost.

At the end of each reporting period, the total borrowings are pledged by certain assets and their carrying values are shown as below:

	2016 **¥ million**	2015 ¥ million
Property, plant and equipment	**8,445**	7,991
Investment properties	**697**	681
Bank deposits	**–**	1,100
Deposits and other receivables	**560**	258
Other long term assets	**–**	40
	9,702	10,070

The undrawn borrowing facilities of the Group at each reporting period are as follows:

	2016 **¥ million**	2015 ¥ million
Floating rate		
— Expiring over 1 year	**1,400**	–

The carrying amounts of borrowings of the Group approximate their fair values as at 31 March 2016 and 2015.

During the year ended 31 March 2016 and 2015, the principal amounts of bonds issued by the Group carried at fixed interest rate per annum are as follows:

Issue date	**Principal amount** ¥ million	**Interest rate**	**Due date**
28 August 2012 (Note)	160	0.70%	26 August 2022
30 November 2012 (Note)	100	0.60%	30 November 2022
28 August 2014	280	0.31%	26 August 2016
19 September 2014 (Note)	100	1.00%	19 September 2019

Note: As at 31 March 2016, these bonds had been fully repaid by the Group.

28 OBLIGATIONS UNDER FINANCE LEASES

	2016 ¥ million	2015 ¥ million
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	**1,784**	2,114
Later than 1 year and no later than 2 years	**1,336**	1,378
Later than 2 year and no later than 5 years	**2,271**	1,967
Later than 5 years	**2,579**	1,317
	7,970	6,776
Future finance charges on finance leases	**(1,370)**	(909)
Present values of finance lease liabilities	**6,600**	5,867

The present values of finance lease liabilities are as follows:

	2016 ¥ million	2015 ¥ million
No later than 1 year	**1,530**	1,886
Later than 1 year and no later than 2 years	**1,135**	1,212
Later than 2 year and no later than 5 years	**1,867**	1,675
Later than 5 years	**2,068**	1,094
Total obligations under finance leases	**6,600**	5,867
Less: Amount included in current liabilities	**(1,530)**	(1,886)
Non-current obligations under finance leases	**5,070**	3,981

Assets arranged under finance leases represent buildings for pachinko and pachislot halls and pachinko and pachislot machines. The average lease term range from 1 to 20 years with effective interest rate range from 3.22% to 4.42% per annum as at 31 March 2016 (2015: 2.46% to 5.30% per annum). No arrangements have been entered into for contingent rental payments during the reporting periods.

29 DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	2016 ¥ million	2015 ¥ million
Deferred income tax assets		
— to be recovered after more than 12 months	**1,738**	1,166
— to be recovered within 12 months	**1,249**	2,004
	2,987	3,170
Deferred income tax liabilities		
— to be recovered after more than 12 months	**(1,206)**	(1,399)
Deferred income tax assets, net	**1,781**	1,771

The net movement on the deferred income tax account is as follows:

	2016 ¥ million	2015 ¥ million
At 1 April	**1,771**	1,462
Credit to the consolidated statement of other comprehensive income	**160**	118
(Charged)/credited to profit or loss	**(150)**	191
Deferred income tax assets	**1,781**	1,771

The movement in deferred income tax assets and liabilities during the years ended 31 March 2016 and 2015, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

29 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets

	Property, plant and equipment ¥ million	Asset retirement obligation ¥ million	Fair value through profit and loss financial assets ¥ million	Other provisions ¥ million	Total ¥ million
Balances at 1 April 2014	2,152	488	28	500	3,168
(Charged)/credited to profit or loss	(344)	24	3	319	2
Balances at 31 March 2015 and 1 April 2015	1,808	512	31	819	3,170
Credited/(charged) to profit or loss	74	(66)	(19)	(172)	(183)
Balance at 31 March 2016	1,882	446	12	647	2,987

Deferred income tax liabilities

	Property, plant and equipment ¥ million	Fair value through other comprehensive income ¥ million	Total ¥ million
Balance at 1 April 2014	(1,409)	(297)	(1,706)
Charged to other comprehensive income	–	118	118
Credited to profit or loss	189	–	189
Balances at 31 March 2015 and 1 April 2015	(1,220)	(179)	(1,399)
Credited to other comprehensive income	–	160	160
Credited to profit or loss	33	–	33
Balance at 31 March 2016	(1,187)	(19)	(1,206)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not have any unrecognised tax losses as at 31 March 2016 and 2015. The unrecognised deferred income tax assets of approximately ¥31 million in respect of losses for the year ended 31 March 2014 amounting to approximately ¥81 million can be carried forward for 7 years against future taxable income.

Other than the above, there was no material unprovided deferred income tax as at 31 March 2016 and 2015.

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30 DIVIDENDS

During the year ended 31 March 2015, the Company and Nexia Inc. paid dividend of ¥156 million (¥40 per ordinary share) and ¥27 million (¥10,000 per ordinary share), respectively, to their then shareholders in respect of the year ended 31 March 2014.

During the year ended 31 March 2016, the Company paid dividend of ¥909 million (¥0.76 per ordinary share) to their then shareholders in respect of the year ended 31 March 2015.

The board of directors of the Company declared the payment of a final dividend of ¥0.10 per ordinary share totalling ¥120 million in respect of the year ended 31 March 2016. These financial statements do not reflect this dividend payable.

31 CASH GENERATED FROM OPERATIONS

	2016	2015
	¥ million	¥ million
Profit before income tax	**633**	4,994
Adjustments for:		
Depreciation of property, plant and equipment	**2,387**	2,019
Depreciation of investment properties	**27**	15
Amortisation of intangible assets	**37**	31
Loss on disposal of property, plant and equipment	**57**	27
Impairment loss of property, plant and equipment	**317**	–
Finance costs, net	**838**	616
Dividend income	**(64)**	(66)
Loss/(gain) on fair value for derivative financial instruments	**16**	(7)
Gain on fair value for financial assets at fair value through profit or loss	**(6)**	(1)
Loss on disposal of financial assets at fair value through profit or loss	**–**	7
Changes in working capital:		
Inventories	**139**	1,042
Trade receivables	**(12)**	2
Prepayments, deposits and other receivables	**580**	(1,466)
Amounts due from directors and a shareholder	**–**	378
Trade payables	**26**	(95)
Accruals, provisions and other payables	**(260)**	1,320
Cash generated from operations	**4,715**	8,816

Notes to the Consolidated Financial Statements

31 CASH GENERATED FROM OPERATIONS (CONTINUED)

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment and comprise:

	2016 **¥ million**	2015 ¥ million
Net book amount	**57**	227
Loss on disposal of property, plant and equipment	**(57)**	(27)
Proceeds from disposal of property, plant and equipment	**–**	200

Major non-cash transactions:

(a) For the year ended 31 March 2016, no property, plant and equipment and pachinko and pachislot machines were purchased under finance leases (2015: ¥2,920 million).

(b) For the year ended 31 March 2016, certain finance lease obligations amounting to ¥160 million (2015: ¥571 million) were settled through reduction of rental prepayments.

32 CONTINGENCIES

As at 31 March 2016, the Group did not have any significant contingent liabilities (2015: Same).

33 COMMITMENTS

(a) Capital commitments

The outstanding commitments not provided for in the consolidated financial statements as at 31 March 2016 and 2015 are as follows:

	2016 **¥ million**	2015 ¥ million
Contracted but not provided for Purchase of property, plant and equipment	**40**	41

33 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

(i) As a lessee

As at 31 March 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and pachinko and pachislot halls as follows:

	2016	2015
	¥ million	¥ million
No later than one year	**1,083**	917
Later than one year and no later than five years	**3,771**	3,524
Over five years	**6,016**	5,244
	10,870	9,685

(ii) As a lessor

As at 31 March 2016 and 2015, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	2016	2015
	¥ million	¥ million
No later than one year	**38**	42

34 RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individuals and companies were related parties that had transactions or balances with the Group during the year ended 31 March 2016 and 2015:

Name of related party	**Relationship with the Group**
Hisanori Taniguchi	Director of the Company, one of the Controlling Shareholders
Tatsuo Taniguchi	Director of the Company, one of the Controlling Shareholders
Masataka Taniguchi	One of the Controlling Shareholders
Tateo Taniguchi (Note)	One of the Controlling Shareholders
Yoshihiro Tei	One of the Controlling Shareholders
Mitsuhiro Tei (Note)	One of the Controlling Shareholders
Motohiro Tei (Note)	One of the Controlling Shareholders
Eijun Tei (Note)	One of the Controlling Shareholders
Rika Tei (Note)	One of the Controlling Shareholders
Noriko Kaneshiro	One of the Controlling Shareholders
Kyoko Taniguchi	Close family member of certain parties among the Controlling Shareholders
Jukki Limited	One of the Controlling Shareholders
Densho Limited	One of the Controlling Shareholders
Echo Limited	One of the Controlling Shareholders
Daiki Limited	One of the Controlling Shareholders
Hokuyo Kanko Limited	One of the Controlling Shareholders
Kawashima Co., Ltd.	One of the Controlling Shareholders
Niraku Investment Inc.	Controlled by certain parties among the Controlling Shareholders
Niraku USA Inc.	Controlled by certain parties among the Controlling Shareholders

Note: Mr. Tateo Taniguchi deceased on 17 April 2014. Mr. Mitsuhiro Tei, Mr. Motohiro Tei, Ms. Eijun Tei and Ms. Rika Tei became successors of his shareholding since then.

34 RELATED PARTY TRANSACTIONS (CONTINUED)

Other than those transactions and balances disclosed elsewhere in these consolidated financial statements, the following transactions were carried out with related parties during the years ended 31 March 2016 and 2015:

(a) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the years ended 31 March 2016 and 2015.

	2016	2015
	¥ million	¥ million
Service fee expenses		
Niraku USA, Inc.	**33**	–
Rental expenses		
Hisanori Taniguchi	**–**	8
Tatsuo Taniguchi	**–**	8
Masataka Taniguchi	**–**	11
	–	27

The service fee paid was related to provision of gaming research services carried out by Niraku USA, Inc. and provision of training to employees of the Group in USA.

The rental expenses were related to the operating lease expense of a pachinko hall owned by the Controlling Shareholders. During the year ended 31 March 2015, the Group acquired the related property from the Controlling Shareholders as part of the Reorganisation.

All the above transactions with related parties were conducted in the ordinary course of the business based on terms mutually agreed between the relevant parties.

(b) Key management compensation

Key management includes directors (executive, non-executive and external directors) and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	2016	2015
	¥ million	¥ million
Directors' fees	**192**	173
Basic salaries, allowances and other benefits in kind	**–**	600
Employee's contribution to pension scheme	**3**	3
	195	776

Notes to the Consolidated Financial Statements

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	At 31 March 2016 ¥ million	2015 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment		**4**	5
Intangible assets		**23**	3
Deposits and other receivables		**7**	26
Loans to subsidiaries		**5,927**	–
Investments in subsidiaries		**16,286**	16,286
Deferred income tax assets		**188**	276
		22,435	16,596
Current assets			
Prepayments, deposits and other receivables		**16**	172
Loans to subsidiaries		**1,145**	–
Bank deposits with maturity over 3 months		**536**	–
Cash and cash equivalents		**3,126**	396
Current income tax recoverable		**847**	490
		5,670	1,058
Total assets		**28,105**	17,654
EQUITY			
Share capital		**3,000**	10
Reserves	(a)	**16,182**	14,574
Total equity		**19,182**	14,584
LIABILITIES			
Non-current liabilities			
Borrowings		**7,275**	2,436
Other payables		**9**	6
Financial liabilities at fair value through profit or loss		**14**	–
		7,298	2,442
Current liabilities			
Borrowings		**1,289**	351
Other payables		**299**	277
Financial liabilities at fair value through profit or loss		**2**	–
Current income tax liabilities		**35**	–
		1,625	628
Total liabilities		**8,923**	3,070
Total equity and liabilities		**28,105**	17,654

Notes to the Consolidated Financial Statements

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note (a) Reserves movement of the Company

	Share capital ¥ million	Capital surplus ¥ million	Retained earnings ¥ million	Total ¥ million
Balances at 1 April 2014	10	12,844	508	13,362
Profit for the year	–	–	2,488	2,488
Reduction in surplus capital upon distribution in specie (Note 24(a))	–	(1,110)	–	(1,110)
Dividend	–	–	(156)	(156)
Balance at 31 March 2015 and 1 April 2015	10	11,734	2,840	14,584
Profit for the year	–	–	297	297
Issue of shares	2,990	2,497	–	5,487
Transaction costs attributable to issuance of shares	–	(277)	–	(277)
Dividend	–	–	(909)	(909)
Balances at 31 March 2016	3,000	13,954	2,228	19,182

36 BENEFITS AND INTERESTS OF DIRECTORS

Directors and chief executive's emoluments

The remuneration of every director of the Company paid/payable by the Group for the year ended 31 March 2016 and 2015 is set out below:

For the year ended 31 March 2016

Name	Fee ¥ million	Salaries, allowances and other benefits ¥ million	Defined contribution pension costs ¥ million	Total ¥ million
Directors				
Hisanori Taniguchi (also the Chief executive)	**100**	**–**	**1**	**101**
Independent non-executive directors				
Hiroaki Morita	**4**	**–**	**–**	**4**
Norio Nakayama	**4**	**–**	**–**	**4**
Masaharu Togo	**4**	**–**	**–**	**4**
Hiroaki Kumamoto	**6**	**–**	**–**	**6**
	118	**–**	**1**	**119**

36 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

Directors and chief executive's emoluments (Continued)

For the year ended 31 March 2015

Name	Fee ¥ million	Salaries, allowances and other benefits ¥ million	Defined contribution pension costs ¥ million	Total ¥ million
Directors				
Hisanori Taniguchi	86	–	1	87
Tatsuo Taniguchi (Note ii)	33	600	*	633
Hidenori Morota (Note ii)	26	–	1	27
Akinori Ohishi (Note ii)	16	–	1	17
Independent non-executive directors				
Hiroaki Morita	4	–	–	4
Norio Nakayama	3	–	–	3
Masaharu Togo	3	–	–	3
Hiroaki Kumamoto	1	–	–	1
External director				
Hiroshi Bannai (Note i)	1	–	–	1
	173	600	3	776

Notes:

(i) Mr. Hiroshi Bannai was an external director in accordance with the requirements under the Japan Companies Act of the Company prior to his retirement on 31 October 2014.

(ii) Mr. Tatsuo Taniguchi, Mr. Hidenori Morota and Mr. Akinori Ohishi resigned as director on 25 June 2014.

* Insignificant amount less than ¥1 million

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the Group and/or their capacity as directors of the Company during the years ended 31 March 2016 and 2015.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 March 2016 and 2015.

The retirement benefits paid to Mr. Tatsuo Taniguchi during the year ended 31 March 2015 in respect of Mr. Tatsuo Taniguchi's services as a director of the Company and its subsidiaries was ¥600 million. During the year ended 31 March 2016, no retirement benefits were paid to any of the director in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking.

37 EVENT AFTER THE BALANCE SHEET DATE

On 19 May 2016, the Company entered into the sales and purchase agreement with Coastal Heritage Limited to purchase 66.7% of equity interest in Nha Trang Holdings Limited ("Nha Trang"), a company engaged in Vietnamese and pinot duck restaurants operation, at an aggregate consideration of HK$100 million. Subject to the fulfillment of several conditions precedent, the acquisition is expected to be completed on or before 31 May 2016.

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