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

2018/2019

INTERIM REPORT 中期報告

* 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, together with its subsidiaries, the "Group") is a leading pachinko hall operator in Fukushima Prefecture in Japan, and has 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 54 halls at present, stretching from Tokyo Metropolitan Area to Northeast Honshu, equipped with over 29,100 pachinko and pachislot machines serving customers in ten prefectures in Japan.

* *for identification purpose only*

Corporation Information and Information for Investors

CORPORATE INFORMATION	
Executive Director	Mr. Hisanori TANIGUCHI *(Chairman)* (also known as Mr. JEONG Seonggi)
Non-Executive Director	Mr. Hiroshi BANNAI
Independent Non-Executive Directors	Mr. Hiroaki MORITA Mr. Michio MINAKATA Mr. Yoshihiro KOIZUMI
Audit Committee	Mr. Michio MINAKATA *(Committee Chairman)* Mr. Hiroaki MORITA Mr. Hiroshi BANNAI
Remuneration Committee	Mr. Hiroaki MORITA *(Committee Chairman)* Mr. Yoshihiro KOIZUMI Mr. Hisanori TANIGUCHI
Nomination Committee	Mr. Hisanori TANIGUCHI *(Committee Chairman)* Mr. Michio MINAKATA Mr. Yoshihiro KOIZUMI
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
Investor and Media Relations Consultant	Strategic Financial Relations Limited
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 periods ended 30 September 2018 and 2017.

	For the six months ended 30 September			
	2018		2017	
	¥ million	**HK$ million**	¥ million	HK$ million
Gross pay-ins	**71,189**	**4,899**	70,236	4,727
Gross pay-outs	**(57,972)**	**(3,990)**	(57,560)	(3,873)
Revenue from pachinko and pachislot business	**13,217**	**909**	12,676	853
Revenue from amusement arcade business	**768**	**53**	–	–
Other revenue	**453**	**31**	432	29
Revenue	**14,438**	**994**	13,108	882
Hall operating expenses	**(11,166)**	**(768)**	(11,478)	(772)
Administrative and other operating expenses	**(2,011)**	**(138)**	(1,824)	(123)
Profit/(loss) before income tax	**1,393**	**96**	(104)	(7)
Profit/(loss) attributable to the shareholders of the Company	**878**	**59**	(221)	(15)
Earnings/(loss) per share (expressed in Japanese Yen or Hong Kong dollar)	**0.73**	**0.050**	(0.18)	(0.012)
Overall revenue margin	**18.6%**	**–**	18.0%	–
Net profit/(loss) margin	**5.9%**	**–**	(1.7%)	–

	As at 30 September 2018		As at 31 March 2018	
	¥ million	**HK$ million**	¥ million	HK$ million
Current assets	**19,080**	**1,313**	17,363	1,282
Current liabilities	**9,882**	**680**	8,815	651
Net current assets	**9,198**	**633**	8,548	631
Total assets	**53,022**	**3,649**	52,171	3,853
Total assets less current liabilities	**43,140**	**2,969**	43,356	3,202
Gearing ratio	**63.7%**	**–**	69.6%	–

Financial and Operational Highlights

CURRENCY TRANSLATIONS

For the purpose of illustration only and unless otherwise specified in this interim 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 28 September 2018 (i.e. the last business day in September 2018);

2. ¥14.86 to HK$1.00, the exchange rate prevailing on 29 September 2017 (i.e. the last business day in September 2017);

3. ¥13.54 to HK$1.00, the exchange rate prevailing on 29 March 2018 (i.e. the last business day in March 2018);

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.

Management Discussion and Analysis

BUSINESS OVERVIEW

Pachinko business

For the six months ended 30 September 2018, gross pay-ins and revenue from pachinko and pachislot business amounted to ¥71,189 million and ¥13,217 million, respectively. Despite of continual recession in pachinko industry, the Group had recorded an increase in gross pay-ins and revenue by ¥953 million (or 1.4%) and ¥541 million (or 4.3%), respectively, as compared to the six months ended 30 September 2017. The rise in revenue was mainly attributable to the Niraku Hitachi-omiya hall, which was opened in December 2017. Total revenue derived from this suburban hall amounted to ¥134 million for the six months ended 30 September 2018. Furthermore, the Group continued in optimising the pay-out ratio to improve the revenue margin. This strategic measure had proven its success as the revenue margin had gone up to 18.6% in current period, an increase of 0.6% as compared to same period in 2017.

Amusement arcade business

On 20 November 2017, the Group acquired Dream Games Singapore Pte. Ltd. ("Dream Games") and its subsidiaries, which engages in amusement arcades operation in Vietnam and Cambodia. Dream Games is a young company established in 2013, nevertheless, since its inception, its business strategy is to ally with large Japanese mall developers, focusing on opening amusement arcades in new shopping arcades. For the six months ended 30 September 2018, this sector had contributed ¥768 million of revenue to the Group.

Restaurant business

The Group is currently operating two restaurants, located in Shinbashi and Nishi Shinjuku, as a franchisee of Spanish restaurant chain "Lizarran" developed by the Spain-based Comess Group, which operates restaurants mainly in Europe. For the six months ended 30 September 2018, revenue derived from these restaurants amounted to ¥118 million, a significant increase of ¥41 million was noted as compared to the same period in 2017. The core reason for the surge being the new revenue stream from Nishi Shinjuku which was opened in early August 2017.

CHALLENGES FACED, RECENT DEVELOPMENT AND FUTURE PLANS

The pachinko industry as a whole continues to be severe, and is moving towards a polarised market, since it is expected that small to medium scale pachinko halls are going off the market. The pachinko industry is further dampened with the launch of new regulations over gaming elements in pachinko and pachislot machines; as well as the passage of the "Act on the Promotion of the Development of Integrated Resort Areas" which inevitably imposed pressure on pachinko operators to counter the gambling addiction issue associated with the legalisation of casinos, as well as stringent restrictions on pachinko advertising and promotion activities.

Management Discussion and Analysis

To tackle these challenges, the Group has been carrying out various measures which include streamlining cost structure, increasing customers return rate, providing a gaming environment to meet the needs of diverse fans, and opening new halls. "Niraku Hitachi-Omiya hall", as mentioned above, is a hall opened in late 2017 which is designed based on the concept of community space in the area and is a new style for the future. The Group has made every effort to accommodate the needs of local communities, create halls where visitors can spend a relaxing and enjoyable time, encourage those who are not keen on pachinko games would also pay a visit. Close to the end of September 2018, we closed down an underperformed suburban hall, the "Niraku Mizuho hall". Its closure would allow the Group to better allocate resources between each existing hall. As a result, the number of pachinko halls at present amounted to 54 stores (excluding the "Niraku Tomioka hall", for which the prospect of resumption of business has yet to be determined due to nuclear disaster).

Moving forward, the Group will continue to make improvements on replacing machines in each hall to match customer preference, improve gaming environment, strengthen the organisation through promotion and advertising, streamline the cost structure, and work closely within the Group and the communities to deliver better service and increase support from the locals.

The Group stepped its foot in Southeast Asian countries in November 2017 after the acquisition of Dream Games, a company which operates amusement arcades in Vietnam and Cambodia. Seeing the fast-growing economies and their young demography populations which lead to high demand in amusement facilities, during the current period, the Group opened a new amusement arcade in Cambodia. As a result, the number of amusement arcades in total moved from 7 to 8 halls. The management is confident that steady inflow of income will be generated and which has evidenced by a month-on-month increase in revenue. The Group's future strategy is to capture the economic growth of Asian countries and continue to increase its market share in amusement business.

Apart from pachinko and amusement businesses, the Group also persists in seizing every opportunity in restaurant business. The Group is convinced that, with its profound experiences in entertainment and customer service industry, it can take full advantage of the efficient store management and operation, service and quality maintenance. As a new move, concept of accommodating a café inside the vicinity of pachinko hall was introduced during the current period. "Komeda Café" provides a cosy place for both pachinko and non-pachinko players to enjoy a drink and light meals. The Group plans to continue rolling out more restaurants (Lizarran brand and Komeda Café brand) in Japan.

Management Discussion and Analysis

FINANCIAL REVIEW

Gross pay-ins

Gross pay-ins recorded an increase of ¥953 million, or 1.4%, from ¥70,236 million for the six months ended 30 September 2017 to ¥71,189 million for the same period in current year. The rise was attributable to the inflow of revenue from a new hall which was opened in December 2017 despite of the slump in pachinko industry.

Gross pay-outs

Gross pay-outs, being the aggregate cost of G-prizes and general prizes exchanged by customers, increased by ¥412 million, or 0.7%, from ¥57,560 million for the six months ended 30 September 2017 to ¥57,972 million for the same period in 2018, which generally mirrored the increase in gross pay-ins.

Revenue and revenue margin from pachinko and pachislot business

Revenue from pachinko and pachislot business ascended from ¥12,676 million for the six months ended 30 September 2017 to ¥13,217 million for the same period in current year. The increase of ¥541 million was primarily due to additional revenue derived from the new hall as discussed above.

The revenue margin increased by 0.6% from 18.0% for the six months ended 30 September 2017 to 18.6% for the same period in current year. The increase in revenue margin was due to the effect of drop in pay-out ratio which led to positive impact on revenue margin in current period.

Revenue from amusement arcade business

In November 2017, the Group acquired 100% of equity interest in Dream Games, a company engages in the operation of entertainment and amusement facilities in Cambodia and Vietnam. As a result of the acquisition, the financial results of Dream Games and its subsidiaries were consolidated into the Group's financial statements.

For the six months ended 30 September 2018, the revenue contributed from amusement arcade business amounted to ¥768 million, of which ¥655 million and ¥113 million were derived from Vietnam and Cambodia, respectively.

Management Discussion and Analysis

Other revenue

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

Vending machine income amounted to ¥258 million for the six months ended 30 September 2018. The decrease of ¥14 million or 5.1% as compared to ¥272 million for the same period in 2017 was resulted from the decrease in customer visits.

Income from hotel operations noted a slight decrease of ¥6 million from ¥83 million for the six months ended 30 September 2017 to ¥77 million for the six months ended 30 September 2018. The drop is due to higher competition in hotel business which led to decrease in average occupancy rate by 4.7%.

Revenue from restaurant under the brand "LIZARRAN" amounted to ¥118 million for the six months ended 30 September 2018. The surge of ¥41 million as compared to the same period in 2017 is mainly attributable to the opening of the third Spanish restaurant in August 2017 which generated additional revenue.

Hall operating expenses

Hall operating expenses decreased by ¥312 million, or 2.7%, from ¥11,478 million for the six months ended 30 September 2017 to ¥11,166 million for the same period in current year. Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and rental expenses, amounting to ¥3,374 million, ¥2,716 million and ¥1,480 million, respectively, for the six months ended 30 September 2018 (30 September 2017: ¥4,339 million, ¥2,588 million and ¥1,307 million, respectively).

The decline in hall operating expenses is mainly resulted from plunge in pachinko and pachislot machine expenses netted with increase in utilities and maintenance expenses.

Administrative and other operating expenses

Administrative and other operating expenses increased by ¥187 million, or 10.3% from ¥1,824 million for the six months ended 30 September 2017 to ¥2,011 million for the same period in 2018. The hike in expenses is due to increase in staff cost and advertising expense, and extra costs were incurred for closure of a hall in late September 2018.

Finance costs

Finance costs, net recorded a decrease of ¥9 million, or 3.9%, from ¥232 million for the six months ended 30 September 2017 to ¥223 million for the same period in 2018. The drop is resulted from the decrease in total borrowings for the six months ended 30 September 2018 as compared to the same period in 2017.

Management Discussion and Analysis

Profit/(loss) attributable to owners of the Company, basic earnings/(loss) per share and dividend

Profit attributable to owners of the Company of ¥878 million was recorded for the six months ended 30 September 2018, as compared to the loss attributable to owners of ¥221 million for the six months ended 30 September 2017. The turnaround from loss to profit was mainly attributable to additional revenue driven from the new pachinko hall and Dream Games business, together with the decline in machine expenses.

Basic earnings per share was ¥0.73 (basic loss per share for the six months ended 30 September 2017: ¥0.18). The Board has declared an interim dividend of ¥0.08 (or HK$0.006) per share for the six months ended 30 September 2018 (30 September 2017: Nil). The interim dividend will be payable on 8 January 2019 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company at close of business on 7 December 2018.

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 difficulty 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.

Management Discussion and Analysis

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 30 September 2018 and 31 March 2018, and operating cash flows before movements in working capital of the Group for the six months ended 30 September 2018 and 2017, respectively:

	As at 30 September 2018 ¥ million	As at 31 March 2018 ¥ million
Cash and cash equivalents	**17,491**	15,594
Bank deposits	**123**	90
	17,614	15,684
Bank loans	**3,453**	3,574
Syndicated loans	**10,733**	11,166
Obligations under finance leases	**3,658**	4,135
	17,844	18,875
Working capital	**9,198**	8,548
Total equity	**28,016**	27,136
Gearing ratio	**63.7%**	69.6%

	For the six months ended 30 September	
	2018 ¥ million	2017 ¥ million
Operating cash flows before movements in working capital	**2,955**	1,246

Net current assets of the Group totalled ¥9,198 million as at 30 September 2018 (31 March 2018: ¥8,548 million), and current ratio was 1.93 as at 30 September 2018 (31 March 2018: 1.97). As at 30 September 2018, there were cash and cash equivalents of ¥17,491 million (31 March 2018: ¥15,594 million), in which ¥16,292 million was denominated in Japanese Yen, ¥799 million was denominated in United States dollar, ¥247 million was denominated in Hong Kong dollar, ¥136 million was denominated in Vietnam Dong and ¥17 million in other currencies. The Group had total borrowings of ¥17,844 million as at 30 September 2018 (31 March 2018: ¥18,875 million). Current portion of borrowings and current portion of obligations under finance leases amounted to ¥4,876 million as at 30 September 2018 (31 March 2018: ¥4,774 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 30 September 2018, the total bank borrowings amounted to ¥14,186 million (31 March 2018: ¥14,740 million), with average effective interest rates on bank borrowings ranged from 1.02% to 1.91% (31 March 2018: 0.8% to 1.1%) per annum. Approximately 4.8% of bank borrowings as at 30 September 2018 were fixed rate borrowings.

Management Discussion and Analysis

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 30 September 2018, the Group had one floating to fixed interest rate swap contract with a bank in Japan (i.e. the Group pays fixed interest rates and receive interests at floating rate). This interest rate swap contract was 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 six months ended 30 September 2018, the gain on fair value for interest rate swap contracts amounted to ¥3 million.

The Group's debts were primarily denominated in Japanese Yen. After the acquisition of Dream Games, the Group maintains an appropriate level of external borrowings in Vietnam Dong for natural hedging of Vietnam Dong attributed to projects in Vietnam. The Vietnam Dong exposure of the Group is mainly derived from the translation of non-current assets and liabilities of the Vietnam subsidiary with functional currency of Vietnam Dong and the Vietnam Dong deposits held for future development costs. As at 30 September 2018, the translation of non-current assets and liabilities of subsidiaries with functional currency other than Japanese Yen to Japanese Yen by using exchange rates at that day resulted in a gain of ¥56 million is recognised in equity. Apart from this, 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 63.7% as at 30 September 2018 (31 March 2018: 69.6%). The drop of 5.9% as compared with that of the year ended 31 March 2018 was mainly due to increase of total equity of ¥880 million, netted with decrease of total borrowings of ¥1,031 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 and amusement arcade operations. The table below shows a breakdown of the capital expenditure for the indicated periods:

	As at 30 September 2018 ¥ million	As at 31 March 2018 ¥ million
Property, plant and equipment	**426**	1,915
Investment properties	**15**	3
Others	**1**	1
	442	1,919

CHARGES ON ASSETS

As at 30 September 2018 and 31 March 2018, the carrying values of charged assets were as below:

	As at 30 September 2018 ¥ million	As at 31 March 2018 ¥ million
Property, plant and equipment	**9,209**	8,340
Investment properties	**659**	662
Deposits and other receivables	**581**	582
	10,449	9,584

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 September 2018 and 31 March 2018.

CAPITAL COMMITMENTS

Details of the Group's capital commitments as at 30 September 2018 and 31 March 2018 are set out in Note 21 to the condensed consolidated interim financial information.

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

During the six months ended 30 September 2018, the Group did not conduct any significant investments, material acquisitions or disposals. Save for those disclosed in this interim 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 interim report.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2018, the Group had 1,453 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 22(b) to the condensed consolidated interim financial information.

FINANCIAL KEY PERFORMANCE INDICATORS

Certain financial key performance indicators which complement and supplement the financial disclosures are set out in "Management Discussion and Analysis" on pages 6 to 13 and the "Condensed Consolidated Financial Statements" on pages 21 to 46 of this interim report.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

During the six month ended 30 September 2018, 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 2018 was held on 28 June 2018 ("2018 AGM"), while the notice for the 2018 AGM was despatched on 7 June 2018. 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 for AGM but the notice period for the 2018 AGM was less than 20 clear business days before the 2018 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 2018 for the financial year ended 31 March 2018).

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 of the Company for the year ended 31 March 2018 which accompanied the 2018 AGM notice despatched to the Shareholders.

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 six months ended 30 September 2018.

Corporate Governance and Other Information

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the six months ended 30 September 2018. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 30 September 2018.

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 30 September 2018, 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]	225,560,460 common Shares	18.86%
Hiroshi BANNAI (坂內弘)	Beneficial Owner	216,000 common Shares	0.02%

Notes:

(1) The interests held by Hisanori TANIGUCHI (谷口久徳) (also known as Mr. JEONG Seonggi) shown above include the 214,060,460 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 30 September 2018.

Save as disclosed above, as at 30 September 2018, 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.

Corporate Governance and Other Information

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

As at 30 September 2018, 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%
CHOI Jung Ae (崔正愛)	Interest of a spouse(5)	224,480,460 common shares	18.77%
Hideko TANIGUCHI (谷口秀子)	Interest of a spouse(6)	223,790,000 common shares	18.71%
Eiko TANIGUCHI (谷口栄子)	Interest of a spouse(7)	151,570,000 common shares	12.67%
JEONG Kyeonghae (鄭慶惠)	Interest of a spouse(8)	98,440,000 common shares	8.23%
Okada Holdings Limited	Beneficial owner(9)	80,500,000 common shares	6.73%

Corporate Governance and Other Information

	Capacity/Nature of interest	Total	Approximate % of shareholding
Universal Entertainment Corporation	Beneficial owner(9)	80,500,000 common shares	6.73%
Tiger Resort Asia Limited	Beneficial owner(9)	80,500,000 common shares	6.73%

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* (有限会社北陽觀光), 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) Ms. CHOI Jung Ae (崔正愛) 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.

(6) 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.

(7) 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.

(8) Ms. JEONG Kyeonghae (鄭慶惠) 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.

(9) 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.

(10) All interests stated are long positions.

(11) There were 1,195,850,460 Shares in issue as at 30 September 2018.

Save as disclosed above, and as at 30 September 2018, 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.

CHANGE TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the Directors since the date of the Company's Annual Report 2018 is set out below:

- Mr. Norio NAKAYAMA resigned as the Independent Non-executive Director and a member of each of the nomination committee of the Company and remuneration committee of the Company with effect from 31 October 2018.

Save as disclosed above, there is no change in information of the Directors since the date of the Company's Annual Report 2018 which required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Board has declared an interim dividend of ¥0.08 (or HK$0.006) per share for the six months ended 30 September 2018 (30 September 2017: Nil). The interim dividend will be payable on 8 January 2019 to the Shareholders whose names appear on the register of members of the Company at close of business on 7 December 2018.

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 22 November 2018 (being 15 to 16 November 2018 and 19 to 21 November 2018).

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the Interim Report for the six months ended 30 September 2018 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2018 have been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

* *For identification purpose only*

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS 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)

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 46, which comprises the interim condensed consolidated statement of financial position 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 (together, the "Group") as at 30 September 2018 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Report on Review of Interim Financial Information

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 November 2018

* *For identification purpose only*

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2018

	Note	Six months ended 30 September 2018 ¥ million (Unaudited)	2017 ¥ million (Unaudited)
Revenue	6	**14,438**	13,108
Other income	7	**319**	323
Other gains/(losses), net	7	**36**	(1)
Hall operating expenses	8	**(11,166)**	(11,478)
Administrative and other operating expenses	8	**(2,011)**	(1,824)
Operating profit		**1,616**	128
Finance income		**24**	25
Finance costs		**(247)**	(257)
Finance costs, net	9	**(223)**	(232)
Profit/(loss) before income tax		**1,393**	(104)
Income tax expense	10	**(538)**	(117)
Profit/(loss) for the period		**855**	(221)
Profit/(loss) for the period attributable to:			
Owners of the Company		**878**	(221)
Non-controlling interest		**(23)**	–
		855	(221)
Earnings/(loss) per share for profit/(loss) attributable to owners of the Company			
— Basic and diluted (expressed in ¥ per share)	11	**0.73**	(0.18)
Other comprehensive income/(loss)			
Items that have been reclassified or may be subsequently reclassified to profit or loss			
Change in value of financial assets through other comprehensive income		**(5)**	(88)
Currency translation differences		**173**	–
Total comprehensive income/(loss) for the period		**1,023**	(309)
Total comprehensive income/(loss) attributable to:			
Owner of the Company		**1,049**	(309)
Non-controlling interest		**(26)**	–
		1,023	(309)

The notes on pages 27 to 46 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 30 September 2018

	Note	**30 September 2018 ¥ million (Unaudited)**	31 March 2018 ¥ million (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	13	**25,401**	26,207
Investment properties	13	**659**	662
Intangible assets	13	**1,662**	1,571
Prepayments, deposits and other receivables		**3,617**	3,751
Financial assets at fair value through profit or loss		**100**	52
Financial assets at fair value through other comprehensive income		**945**	953
Deferred income tax assets		**1,558**	1,565
Long-term bank deposits		**–**	47
		33,942	34,808
Current assets			
Inventories		**279**	57
Trade receivables	14	**60**	57
Prepayments, deposits and other receivables		**1,127**	1,312
Current income tax recoverable		**–**	300
Bank deposits with maturity over 3 months		**123**	43
Cash and cash equivalents		**17,491**	15,594
		19,080	17,363
Total assets		**53,022**	52,171

The notes on pages 27 to 46 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Financial Position (CONTINUED)

As at 30 September 2018

	Note	**30 September 2018 ¥ million (Unaudited)**	31 March 2018 ¥ million (Audited)
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	15	**3,000**	3,000
Reserves	16	**25,082**	24,176
		28,082	27,176
Non-controlling interest		**(66)**	(40)
Total equity		**28,016**	27,136
LIABILITIES			
Non-current liabilities			
Borrowings	18	**10,080**	10,854
Obligations under finance leases	19	**2,888**	3,247
Provisions and other payables		**2,150**	2,111
Derivative financial instruments		**6**	8
		15,124	16,220
Current liabilities			
Trade payables	17	**308**	247
Borrowings	18	**4,106**	3,886
Obligations under finance leases	19	**770**	888
Accruals, provisions and other payables		**4,352**	3,793
Derivative financial instruments		**1**	1
Current income tax liabilities		**345**	–
		9,882	8,815
Total liabilities		**25,006**	25,035
Total equity and liabilities		**53,022**	52,171

The notes on pages 27 to 46 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2018

	Attributable to shareholders of the Company									
	Share capital	Capital surplus (Note 16(a))	Capital reserve (Note 16(b))	Legal reserve (Note 16(c))	Investment revaluation reserve (Note 16(d))	Retained earnings	Exchange reserves	Sub-total	Non-controlling interest	Total
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Balance at 1 April 2017	3,000	13,954	(16,028)	107	272	26,194	–	27,499	–	27,499
Comprehensive income										
Loss for the period	–	–	–	–	–	(221)	–	(221)	–	(221)
Other comprehensive loss										
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(88)	–	–	(88)	–	(88)
Total comprehensive loss for the period	–	–	–	–	(88)	(221)	–	(309)	–	(309)
Issuance of shares of a subsidiary to a non-controlling shareholder	–	–	–	–	–	–	–	–	5	5
Final dividend relating to 2017	–	–	–	–	–	(36)	–	(36)	–	(36)
Total transaction with owners	–	–	–	–	–	(36)	–	(36)	5	(31)
Balances at 30 September 2017 (Unaudited)	3,000	13,954	(16,028)	107	184	25,937	–	27,154	5	27,159
Balance at 1 April 2018	3,000	13,954	(16,028)	107	93	26,143	(93)	27,176	(40)	27,136
Comprehensive income										
Profit for the period	–	–	–	–	–	878	–	878	(23)	855
Other comprehensive income/(loss)										
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(5)	–	–	(5)	–	(5)
Currency translation difference	–	–	–	–	–	–	176	176	(3)	173
Total comprehensive income for the period	–	–	–	–	(5)	878	176	1,049	(26)	1,023
Final dividend relating to 2018	–	–	–	–	–	(143)	–	(143)	–	(143)
Total transactions with owners	–	–	–	–	–	(143)	–	(143)	–	(143)
Balance at 30 September 2018 (Unaudited)	3,000	13,954	(16,028)	107	88	26,878	83	28,082	(66)	28,016

The notes on pages 27 to 46 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2018

	Unaudited Six months ended 30 September 2018 ¥ million (Unaudited)	2017 ¥ million (Unaudited)
Cash flows from operating activities		
Cash generated from operations	**3,829**	2,023
Interest paid	**(194)**	(201)
Income tax refunded/(paid)	**111**	(146)
Net cash generated from operating activities	**3,746**	1,676
Cash flows from investing activities		
Purchase of property, plant and equipment	**(498)**	(768)
Purchase of investment properties	**(14)**	(3)
Purchase of intangible assets	**(1)**	–
Purchase of financial assets at fair value	**(100)**	–
Proceeds from disposal of financial assets at fair value	**50**	50
Proceeds from bank deposits with maturity over 3 months	**122**	145
Placement of bank deposits with maturity over 3 months	**(202)**	(125)
Proceed from long-term bank deposits	**47**	–
Placement of long-term bank deposits	**–**	(6)
Interest received	**2**	1
Dividend received	**27**	30
Net cash used in investing activities	**(567)**	(676)
Cash flows from financing activities		
Repayment of obligations under finance leases	**(546)**	(646)
Proceeds from bank borrowings	**4,163**	3,378
Repayment of bank borrowings	**(4,765)**	(2,948)
Dividends paid	**(143)**	(36)
Net cash used in financing activities	**(1,291)**	(252)
Net increase in cash and cash equivalents	**1,888**	748
Cash and cash equivalents at beginning of the period	**15,594**	13,404
Exchange gain on cash and cash equivalents	**9**	–
Cash and cash equivalents at end of the period	**17,491**	14,152

Interim Condensed Consolidated Statement of Cash Flows (CONTINUED)

For the six months ended 30 September 2018

Non-cash transactions:

(a) For the six months ended 30 September 2018, property, plant and equipment of ¥17 million (For the six months ended 30 September 2017: ¥25 million) were purchased under finance leases.

(b) For the six months ended 30 September 2018, certain obligations under finance leases amounting to ¥56 million (For the six months ended 30 September 2017: ¥55 million) were settled through reduction of rental prepayments.

The notes on pages 27 to 46 are an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

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, hotel and restaurant operations in Japan, and entertainment and amusement arcade operations in Asia countries.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in millions of Japanese Yen ("¥"), unless otherwise stated.

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 September 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2018, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(i) New standards and amendments to standards adopted by the Group

The following new standards and amendments have been issued and effective for annual periods beginning on 1 April 2018:

IFRS 2 (Amendment)	Classification and measurement of share-based payment transactions
IFRS 15	Revenue from contracts with customers
IFRS 15 (Amendment)	Clarification to IFRS 15
IFRIC 22	Foreign currency transactions and advance consideration
IAS 40 (Amendment)	Transfers of investment property
Annual improvement Project IFRS 1 and IAS 28 (Amendment)	Annual improvement Project 2014-2016 Cycle

The impact of the adoption of IFRS 15 is disclosed in Note 3 (iii) below. The other new or amended standards did not have any material impact on the Group's accounting policies.

3 ACCOUNTING POLICIES (CONTINUED)

(ii) New standards and amendments to existing standards issued but not yet adopted by the Group

IFRS 16 "Leases" was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of ¥10,247,000,000 (Note 21(b)). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

(iii) Adoption of IFRS 15, "Revenue from contracts with customers"

The Group has adopted IFRS 15 from 1 April 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated interim financial information. In accordance with the transitional provisions in IFRS 15, the Group has adopted the modified retrospective approach and comparative figures have not been restated.

The accounting policies were changed to comply with IFRS 15. IFRS 15 replaces the provision of IAS 18 "Revenue" and IAS 11 "Construction Contracts" that relate to the recognition, classification and measurement of revenue and costs.

The effect of the adoption of IFRS 15 is related to presentation of contract liabilities within the "Accruals, provisions and other payables" recognised in the consolidated statement of financial position as at 1 April 2018 to be consistent with the terminology used under IFRS 15:

- Contract liabilities recognised for unutilised balls and tokens was previously presented within "Accruals, provisions and other payables".

- Contract liabilities recognised for vending machine rental receipt in advance was previously presented within "Accruals, provisions and other payables".

The adoption of IFRS 15 has no material impact to the Group's net assets as at 31 March 2018 and the condensed consolidated results, earnings per share (basic and diluted) and interim condensed consolidated statement of cash flows for the period ended 30 September 2018.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2018.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 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 condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2018.

There have been no changes in the risk management policies since year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash flows for financial liabilities.

5.3 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).

There were no transfers between levels 1, 2 and 3 during the period.

Notes to the Condensed Consolidated Interim Financial Information

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair value estimation (Continued)

There were no transfers between levels 1, 2 and 3 during the period.

	Level 1	Level 2	Level 3	Total
	¥ million	¥ million	¥ million	¥ million
As at 30 September 2018 (Unaudited)				
Assets				
Financial assets at fair value through profit or loss				
— Unlisted securities	**–**	**100**	**–**	**100**
Financial assets at fair value through other comprehensive income				
— Listed securities	**815**	**–**	**–**	**815**
— Unlisted securities	**–**	**–**	**130**	**130**
	815	**100**	**130**	**1,045**
Liabilities				
Derivative financial liabilities				
— Interest rate swaps	**–**	**7**	**–**	**7**
As at 31 March 2018 (Audited)				
Assets				
Financial assets at fair value through profit or loss				
— Unlisted securities	–	52	–	52
Financial assets at fair value through other comprehensive income				
— Listed securities	823	–	–	823
— Unlisted securities	–	–	130	130
	823	52	130	1,005
Liability				
Derivative financial liabilities				
— Interest rate swaps	–	9	–	9

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair value estimation (Continued)

(i) 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.

(ii) 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 30 September 2018, instruments included in level 2 comprise trust funds and interest rate swaps issued by a financial institution in Japan and which were classified as financial assets at fair value through profit or loss.

(iii) Financial instruments in level 3

As at 30 September 2018, 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.

There were no transfers between levels 1,2 and 3 during the period ended 30 September 2018.

6 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Six months ended 30 September	
	2018	2017
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Revenue		
Gross pay-ins	**71,189**	70,236
Less: gross pay-outs	**(57,972)**	(57,560)
Revenue from pachinko and pachislot hall business	**13,217**	12,676
Revenue from amusement arcades	**768**	–
Vending machine income	**258**	272
Revenue from hotel operation	**77**	83
Revenue from restaurant operations	**118**	77
	14,438	13,108

(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 income tax before unallocated corporate expenses for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as this condensed consolidated interim financial information.

Management has identified three reportable segments based on the types of services, namely (i) pachinko and pachislot hall operations, (ii) amusement arcade operations and (iii) 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, bank deposits with maturity over 3 months and cash and cash equivalents. 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.

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment information provided to the executive directors for the six months ended 30 September 2018 and 2017 are as follows:

	Six months ended 30 September 2018			
	Pachinko and pachislot hall operations Japan ¥ million (Unaudited)	Amusement arcade operations Southeast Asia ¥ million (Unaudited)	Others Japan ¥ million (Unaudited)	Total ¥ million (Unaudited)
Segment revenue from external customers over time	**13,475**	**768**	**195**	**14,438**
Segment results	**1,586**	**79**	**(49)**	**1,616**
Corporate expenses				**(223)**
Profit before income tax				**1,393**
Income tax expense				**(538)**
Profit for the period				**855**
Other segment items				
Depreciation and amortisation expenses	**(1,139)**	**(126)**	**(26)**	**(1,291)**
Finance income	**22**	**2**	**–**	**24**
Finance costs	**(243)**	**(4)**	**–**	**(247)**
Capital expenditures	**304**	**62**	**76**	**442**

Notes to the Condensed Consolidated Interim Financial Information

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

	Six months ended 30 September 2017			
	Pachinko and pachislot hall operations Japan ¥ million (Unaudited)	Amusement arcade operations Southeast Asia ¥ million (Unaudited)	Others Japan ¥ million (Unaudited)	Total ¥ million (Unaudited)
Segment revenue from external customers over time	12,948	–	160	13,108
Segment results	242	–	(62)	180
Corporate expenses				(284)
Loss before income tax				(104)
Income tax expense				(117)
Loss for the period				(221)
Other segment items				
Depreciation and amortisation expenses	(1,124)	–	(19)	(1,143)
Finance income	25	–	–	25
Finance costs	(257)	–	–	(257)
Capital expenditures	693	–	74	767

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment assets as at 30 September 2018 and 31 March 2018 are as follows:

	Pachinko and pachislot hall operations Japan ¥ million	Amusement arcade operations Southeast Asia ¥ million	Others Japan ¥ million	Total ¥ million
As at 30 September 2018				
Segment assets (Unaudited)	**42,666**	**1,061**	**1,175**	**44,902**
Unallocated assets				**6,562**
Deferred income tax assets				**1,558**
Total assets				**53,022**
As at 31 March 2018				
Segment assets (Audited)	42,247	980	1,108	44,335
Unallocated assets				6,271
Deferred income tax assets				1,565
Total assets				52,171

The total non-current assets other than financial instruments and deferred tax assets, analysed by location of the assets, is as follows:

	As at 30 September 2018 ¥ million (Unaudited)	As at 31 March 2018 ¥ million (Audited)
Japan, country of domicile	**30,723**	31,609
Southeast Asia	**616**	629
	31,339	32,238

No single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 30 September 2018 and 2017.

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

	Six months ended 30 September	
	2018	2017
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Other income		
Rental income	**82**	74
Income from expired IC and membership cards	**15**	16
Dividend income	**27**	30
Income from scrap sales of used pachinko and pachislot machines	**179**	191
Others	**16**	12
	319	323

	Six months ended 30 September	
	2018	2017
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Other gains/(losses), net		
Loss on disposal of financial assets at fair value through profit or loss	**(2)**	(2)
Gain on fair value for interest rate swaps	**3**	1
Loss on disposal of property, plant and equipment	**(9)**	(1)
Loss on disposal of investment properties	**(7)**	–
Net exchange gain	**51**	1
	36	(1)

8 OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 30 September	
	2018	2017
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Employee benefits expenses		
— Hall operations	**2,716**	2,588
— Administrative and others	**823**	783
Operating lease rental expense in respect of land and buildings	**1,523**	1,348
Depreciation of property, plant and equipment	**1,248**	1,117
Depreciation of investment properties	**10**	10
Amortisation of intangible assets	**33**	16
Pachinko and pachislot machines expenses (Note)	**3,374**	4,339

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

9 FINANCE COSTS, NET

	Six months ended 30 September	
	2018	2017
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Finance income		
Bank interest income	**2**	1
Other interest income	**22**	24
	24	25
Finance costs		
Bank borrowings	**(96)**	(81)
Obligations under finance leases	**(98)**	(120)
Provision for unwinding discount	**(53)**	(56)
	(247)	(257)
Finance costs, net	**(223)**	(232)

10 INCOME TAX EXPENSE

	Six months ended 30 September 2018 ¥ million (Unaudited)	2017 ¥ million (Unaudited)
Current tax		
— Japan	**507**	151
— Other Asian countries	**27**	–
	534	151
Deferred income tax	**4**	(34)
	538	117

Taxation has been provided at the appropriate rates prevailing in the countries in which the Group operates. The Group is subject to national corporate income tax, inhabitant tax and enterprise tax in Japan, which, in aggregate, resulted in effective statutory income tax rates of approximately 30.2% (30 September 2017: same) for the period ended 30 September 2018. Taxation on Asian countries in which the Group operates. These rates ranges from 17.0% to 20.0% (30 September 2017: N/A).

No provision for Hong Kong profits tax has been made for the six months ended 30 September 2018 and 2017 as the Group did not generate any assessable profits arising in Hong Kong during both periods.

11 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 September 2018 and 2017.

	Six months ended 30 September 2018 (Unaudited)	2017 (Unaudited)
Profit/(loss) attributable to shareholders of the Company (¥ million)	**878**	(221)
Weighted average number of shares for the purpose of calculating basic earnings per share (thousands)	**1,195,850**	1,195,850
Basic and diluted earnings/(loss) per share (¥)	**0.73**	(0.18)

Diluted earnings/(loss) per share is the same as basic earnings/(loss) per share as there was no potential dilutive shares during the six months ended 30 September 2018 and 2017.

12 DIVIDENDS

During the six months ended 30 September 2018, the Company paid dividend of ¥143 million (¥0.12 per ordinary share) to their shareholders in respect of the year ended 31 March 2018.

The Board had declared of an interim dividend of ¥0.08 per ordinary share totalling ¥96 million in respect of the six months ended 30 September 2018 (30 September 2017: Nil). These condensed consolidated interim financial information do not reflect this dividend payable.

13 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

During the six months ended 30 September 2018, the Group incurred expenditures of approximately ¥426 million, ¥15 million and ¥1 million for property, plant and equipment, investment properties and intangible assets, respectively (Six months ended 30 September 2017: ¥764 million and ¥3 million for property, plant and equipment and intangible assets, respectively.)

No impairment loss for property, plant and equipment was incurred by the Group for the six months ended 30 September 2018 (Six months ended 30 September 2017: Nil).

During the six months ended 30 September 2018, the net book amounts of disposed property, plant and equipment and investment properties amounted to approximately ¥9 million and ¥7 million, respectively (Six months ended 30 September 2017: ¥1 million for disposed property, plant and equipment). During the six months ended 30 September 2018, there was no disposal of intangible assets (Six months ended 30 September 2017: Nil).

14 TRADE RECEIVABLES

	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
Trade receivables	**60**	57

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

The ageing analysis of the trade receivables, based on invoice date, is as follows:

	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
Less than 30 days	**60**	53
31 days to 90 days	**–**	4
	60	57

As at 30 September 2018 and 31 March 2018, no trade receivables were past due or impaired.

15 SHARE CAPITAL

	Number of shares	**Share Capital** ¥ million
Ordinary shares, issued and fully paid:		
At 30 September 2017, 1 April 2018 and 30 September 2018	1,195,850,460	3,000

16 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.

(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.

17 TRADE PAYABLES

The ageing analysis of the trade payables, based on invoice dates, were as follows:

	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
Less than 30 days	**212**	72
31–90 days	**83**	162
Over 90 days	**13**	13
	308	247

18 BORROWINGS

	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
Non-current portion		
Bank loans	**2,590**	2,761
Syndicated loans	**7,490**	8,093
	10,080	10,854
Current portion		
Bank loans	**862**	813
Syndicated loans	**3,244**	3,073
	4,106	3,886
Total borrowings	**14,186**	14,740

19 OBLIGATIONS UNDER FINANCE LEASES

	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	**909**	1,041
Later than 1 year and no later than 2 years	**430**	817
Later than 2 years and no later than 5 years	**1,105**	1,206
Later than 5 years	**2,046**	1,985
	4,490	5,049
Future finance charges on finance leases	**(832)**	(914)
Present values of finance lease liabilities	**3,658**	4,135

19 OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

The present values of finance lease liabilities are as below:

	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
No later than 1 year	**770**	888
Later than 1 year and no later than 2 years	**376**	683
Later than 2 years and no later than 5 years	**817**	918
Later than 5 years	**1,695**	1,646
Total obligations under finance leases	**3,658**	4,135
Less: Amount included in current liabilities	**(770)**	(888)
Non-current obligations under finance leases	**2,888**	3,247

Assets arranged under finance leases represent buildings for pachinko and pachislot halls, and gaming machines for amusement arcades. The average lease term range from 1 to 20 years. No arrangements have been entered into for contingent rental payments during the reporting periods.

20 CONTINGENCIES

As at 30 September 2018, the Group did not have any significant contingent liabilities (31 March 2018: Same).

21 COMMITMENTS

(a) Capital commitments

The outstanding commitments not provided for in the condensed interim consolidated financial information are as follows:

	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
Contracted but not provided for Purchase of property, plant and equipment	**41**	62

21 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

(i) As a lessee

As at 30 September 2018 and 31 March 2018, 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:

	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
No later than one year	**1,278**	1,251
Later than one year and no later than five years	**3,579**	4,585
Over five years	**5,390**	4,874
	10,247	10,710

(ii) As a lessor

As at 30 September 2018 and 31 March 2018, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
No later than one year	**39**	43

22 RELATED PARTY TRANSACTIONS

For the purposes of condensed consolidated interim financial information, 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.

Other than those transactions and balances disclosed elsewhere in the condensed consolidated interim financial information, the following transactions were carried out with related parties:

(a) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the six months ended 30 September 2018 and 2017:

	Six months ended 30 September	
	2018	2017
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Service fee expenses		
Niraku USA, Inc.	**17**	18

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. Niraku USA, Inc. is a firm controlled by certain parties among the controlling shareholders of the Company. The 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:

	Six months ended 30 September	
	2018	2017
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Directors' fees	**124**	110
Basic salaries, allowances and other benefits in kind	**20**	–
Employee's contribution to pension scheme	**2**	2
	146	112

23 BUSINESS COMBINATION

Acquisition of Dream Games Singapore Pte. Ltd.

On 20 November 2017, the company has completed the acquisition of 100% issued share capital of Dream Games Singapore Pte. Ltd. and its subsidiaries ("Dream Games") at a cash consideration of ¥1,870 million. Dream Games is engaged in the operation of entertainment and amusement facilities in Cambodia and Vietnam. The Acquisition represents a strategic opportunity for the Group to establish its leading presence in gaming and entertainment industry in Southeast Asia and broaden the types of entertainment provided by the Group.

In respect of the acquisition, during the period the Group has finalised the fair value assessments for the net assets acquired from the business combination. On completion of the fair value assessments, adjustment made to the provisional calculation of identifiable assets and liabilities amounted to ¥20 million, with an equivalent decrease in the reported value of goodwill. The changes mainly represent finalisation of the fair value of property, plant and equipment and intangible assets.

The following table summarises the consideration paid for Dream Games, and the fair value of the assets acquired and liabilities assumed at the acquisition date.

	As at date of acquisition ¥ million
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	117
Prepayments, deposits and other receivables	236
Inventories	21
Property, plant and equipment	583
Deferred tax assets	15
Intangible assets	430
Provision and other payables	(170)
Borrowings and obligation under finance leases	(351)
Deferred tax liabilities	(94)
Current income tax liabilities	(5)
Total identifiable net assets	782
Goodwill	1,088
Net assets acquired	1,870
Purchase consideration settled in cash	1,870

24 SUBSEQUENT EVENT

On 8 November 2018, a wholly-owned subsidiary of the Group entered into an agreement to subscribe for 20,000 shares, representing 40% equity interests, of a newly incorporated Hong Kong entity, Yes!E-Sports Asia Holdings Limited ("YEAH") at a cash consideration of USD40,000. YEAH is established to be a hub for developing and expanding the e-Sports business in Asia.

In addition to the capital contribution, the Group has also entered into a loan agreement with YEAH to provide it with a US$3,200,000 loan with interest rate at 4% per annum. The loan was provided on 15 November 2018 and is repayable every six months by instalments over four years. The Group has the right to demand for full repayment by the time YEAH has surplus funds (defined as any amount of funds, including cash and cash equivalents, in excess of debt of debt-like liabilities such as lease obligations) that exceed US$3,200,000, the principal amount of the loan.

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