



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



2017
ANNUAL REPORT 年報

* For identification purpose only 僅供識別

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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 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 55 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

CORPORATION INFORMATION

Executive Director	Mr. Hisanori TANIGUCHI (<i>Chairman</i>) (also known as Mr. JEONG Seonggi)
Non-Executive Director	Mr. Hiroshi BANNAI
Independent Non-Executive Directors	Mr. Hiroaki MORITA Mr. Norio NAKAYAMA Mr. Masaharu TOGO Mr. Michio MINAKATA Mr. Yoshihiro KOIZUMI
Audit Committee	Mr. Michio MINAKATA (<i>Committee Chairman</i>) Mr. Hiroaki MORITA Mr. Hiroshi BANNAI
Remuneration Committee	Mr. Norio NAKAYAMA (<i>Committee Chairman</i>) Mr. Hiroaki MORITA Mr. Hisanori TANIGUCHI
Nomination Committee	Mr. Hiroaki MORITA (<i>Committee Chairman</i>) Mr. Yoshihiro KOIZUMI 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
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 Company and its subsidiaries (collectively the “Group”) for the financial years ended 31 March 2017, 2016, 2015, 2014 and 2013.

	2017		For the year ended 31 March				
	¥ million	HK\$ million	¥ million	HK\$ million	¥ million	¥ million	¥ million
Gross pay-ins	143,130	9,625	158,095	10,881	175,592	236,449	242,217
Gross pay-outs	(114,734)	(7,716)	(127,900)	(8,803)	(143,473)	(203,455)	(210,298)
Revenue from pachinko and pachislot business	28,396	1,909	30,195	2,078	32,119	32,994	31,919
Other revenue	784	53	800	55	767	853	832
Revenue	29,180	1,962	30,995	2,133	32,886	33,847	32,751
Hall operating expenses	(24,110)	(1,621)	(25,207)	(1,735)	(22,982)	(22,798)	(21,909)
Administrative and other operating expenses	(4,391)	(295)	(4,815)	(331)	(5,336)	(4,636)	(4,126)
Profit before income tax	902	61	633	44	4,994	6,008	6,485
Profit attributable to the shareholders of the Company	492	33	181	12	3,030	3,698	3,765
Earnings per share (expressed in Japanese Yen or Hong Kong dollar)	0.41	0.028	0.15	0.01	3.38	4	967
Overall revenue margin	19.8%	–	19.1%	–	18.3%	14.0%	13.2%
Net profit margin	1.7%	–	0.6%	–	9.2%	10.9%	11.5%

Financial and Operational Highlights

	2017		As at 31 March				
	¥ million	HK\$ million	¥ million	HK\$ million	2015 ¥ million	2014 ¥ million	2013 ¥ million
Current assets	15,276	1,027	15,597	1,073	14,734	11,969	9,860
Current liabilities	7,210	485	8,287	570	11,120	8,951	10,737
Net current assets/(liabilities)	8,066	542	7,310	503	3,614	3,018	(877)
Total assets	49,413	3,323	52,257	3,596	50,977	46,905	42,194
Total assets less current liabilities	42,203	2,838	43,970	3,026	39,857	37,954	31,457
Gearing ratio	59.1%	–	72.4%	–	92.4%	91.7%	100.3%

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. ¥14.87 to HK\$1.00, the exchange rate prevailing on 31 March 2017 (i.e. the last business day in March 2017);
2. ¥14.53 to HK\$1.00, the exchange rate prevailing on 31 March 2016 (i.e. the last business day in March 2016).

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

Business outlook

Pachinko Business

In April 2016, we opened our Fukushima Taiheiji hall in Fukushima prefecture, where our company is based, with 1,280 machines being the largest pachinko hall in Tohoku area.

This mega hall, representing the 21st hall the Group has opened in Fukushima prefecture, not only strengthens the leading position of the Group in Fukushima prefecture, it also establishes a stable customer base since its opening.

On the other hand, due to the change in business environment in Maebashi city, whereby the business conditions around the Maebashi Ohsima hall revealed that this hall would not be profitable, after careful consideration, the management decided to close down this hall in September 2016. Nevertheless, we regarded the closure as a 'positive move to strengthen the business' and allows better resource allocation.

As at 31 March 2017 our sales outlets comprised 55 pachinko halls, 1 hotel and 2 restaurants (excluding the Tomioka pachinko hall which is unlikely to resume business due to nuclear accident in Fukushima).

For the year ended March 2017, the business environment of the Group's mainstay pachinko business remained difficult, with few signs of improvement. According to the Japan Productivity Centre's Leisure White Paper 2016, the number of pachinko and pachislot participants decreased by 7.0% compared with the previous year to 10.7 million. The market size (gross pay-ins) also decreased by 5.2% from previous year to ¥23.229 trillion, which this downturn of pachinko industry sees little sign of turning around. Notwithstanding these circumstances, pachinko consumption expenditure per customer increased. This is partly due to the fact that pachinko machines with high gambling property have been the main focus for pachinko operators; however, these high gambling property machines in turn increase customers' playing cost, which leads to the decrease in number of participants.

Against this backdrop, operators in the pachinko industry have implemented a voluntary replacement of high gambling property machines by the end of December 2016. Future standards governing both pachinko and pachislot machines are expected to move towards low gambling property machines. This trend will enable customers to play at a reduced cost; and while machine development by machine manufacturers progresses, the range of customers is expected to be broadened. Nevertheless, since the low gambling machines will generate lesser revenue (gross pay-ins) than the high gambling property machines, more effective management will be required to maintain financial performance.

Chairman's Statement

Restaurant Business

In regard to the restaurant business, in September 2016, we opened our second Spanish restaurant 'Lizarran Nishi-Shinjuku Otakibashi-dori' under the brand 'LIZARRAN', which is located in Shinjuku area in Tokyo. We schedule to open the third Spanish restaurant in the coming financial year 2018, with further plans to increase the number of restaurants in the future.

In May 2016, we entered into a sales and purchase agreement (the "Agreement") with Coastal Heritage Limited (the "Seller") to purchase 66.7% of equity interest in Nha Trang Holdings Limited (the "Acquisition"), a company engaged in Vietnamese and pinot duck restaurants operation, at an aggregate consideration of HK\$100 million. As certain conditions precedents under the Agreement were not being satisfied, the Acquisition was eventually terminated. In spite of this, we will continue to seek for opportunities in Asian countries for global business development.

Strengthening business through tying up with local regions

Given the decline in pachinko market, selection of hall location is crucial for us to remain sticky to customers.

Pachinko halls have the characteristic of "neighbourhood-type marketing", in which the customers tend to visit pachinko halls in their vicinity and relationship with customers in the business area is close. Rather than attracting customers across a wide area, pachinko business aims to have neighbourhood-based customers paying frequent visits which form part of their daily life pattern. To this end, we believe that the way we are being recognised and evaluated by local residents, as well as how we coexist in harmony as a member of the regional community are important factors driving the business.

At present, the Group is focusing on coexisting harmoniously with local regions for our pachinko halls. To achieve this, we have commenced an "active local engine" campaign as a branding activity.

Through this campaign, halls will become nexus points for various entertainment activities in the region, thus deepening our connection with the region. In general, we gather and introduce fun and interesting topics to business areas near the halls, creating common topics among the local residents, who will eventually become our customers, together sharing things that are interesting and fun. Further, we will also concentrate on the CSR activities and charitable donations to local communities that we have been implementing for some time, promoting all these under a unified concept.

Although these activities may not directly attract customers to play at our halls, it promotes the market presence of the Group, and eventually being recognised as a valued member of the community by local residents, and leads to indirect positive impact on our business.

Chairman's Statement

Toward globalisation

Our company was listed on the Stock Exchange in 2015, allowing us to gain a foothold into Asian market.

Looking at the Asian region, despite the lingering slowdown of economic growth in China, the growth is still persistent. Furthermore, the influences of the Association of South East Asian Nations (the "ASEAN") countries in the world economy is increased year-by-year. The Asian region is expected to have a significant impact on the world's economy in the coming ten years. If member countries including Indonesia, Thailand, Malaysia, Philippines and Vietnam (the "ASEAN 5 countries") continue to grow at the same level as their current potential growth rate, the size of their aggregate nominal gross domestic product is expected to overtake Japan in the mid-2020s. With the (1) increase in the labour force; (2) expansion of trade accompanying the progress of economic integration; and (3) attraction of direct investment continues to make steady progress, the ASEAN's presence in the world will expand considerably approaching 2030.

Our business aim is creating happiness to people by making things "bright," "fun," and "interesting". In these Asian countries, the Group believes leisure industry will be developed that enhance people's leisure time in the future. Through the pachinko business, we have been providing countless people with enjoyment of leisure activities for many years. As future leisure activities in Asia continue to expand, we are convinced that our experience in the entertainment industry will prove to be useful in meeting the needs of the regions.

To achieve this, it requires human resources with an international sense beyond simply fluency in foreign languages. Our people require not only objective perspective about Japan, but also an awareness of diversity that allows recognition of views of others and see the world in different angles. As such, we will continue to focus on educating and nurturing our people, building up an all-rounded business sense, enabling us to adapt to the world and uphold the merits of Japanese practice.

Financial results of current year

Despite the opening of the Taiheiji hall in Fukushima Prefecture in April 2016, the largest pachinko hall in the Tohoku area, accommodated with 1,280 machines, due to the impact of voluntary replacement of high gambling property pachinko machines, gross pay-ins for the year ended 31 March 2017 amounted to ¥143,130 million (decreased by 9.5% compared to last year). As a result of the decrease in gross pay-ins, the revenue declined to ¥29,180 million (decreased by 5.9% as compared to last year). In addition, despite effective cost savings measures were implemented during the year which resulted in decrease in administrative and operating expenses, the Group's operating profit dropped to ¥1,433 million (decreased by 2.6% compared to last year), which was mainly due to the decrease in turnover of pachinko business. On the other hand, profit before tax amounted to ¥902 million (increased by 42.5% compared to last year). The increase in profit before tax is attributed to the significant decrease in interest expenses resulted from centralisation of financing from individual subsidiaries level to the Company; netted with the provision for impairment loss for 1 closed hall and 2 underperformed halls, and the loss on termination of opening of one hall. Net profit was recorded at ¥492 million (increased by 171.8% compared to prior year), the increase in net profit was benefited from the application of consolidated taxation, reducing our effective tax rate.

Chairman's Statement

Challenges faced by the Group and future plans

In December 2016, the “Act on the Promotion of the Development of Integrated Resort Areas” (the “IR Promotion Act” or the “Act”) was approved by the Japanese Diet. This Act obliges the government to take action within a year after its enactment with the objective of submitting the necessary laws for establishing integrated resort areas, including casinos. This law effectively permits the establishment of casinos in Japan, which has triggered a major discussion of “gambling addiction problem.” For a long time, the pachinko industry has been actively considering this “gambling addiction problem” as a “problem caused by excessive obsession.” Following the passage of the Act, there are strong calls for the pachinko industry to take initiatives and necessary actions to address these social issues, including arising from other gambling activities currently exist.

The pachinko operators have responded to the new standard by gradual replacement of pachinko machines from high gambling property to low gambling property machines. Low gambling property machines are generally viewed as generating less gross pay-ins than high gambling property machines. As such, we foresee that the revenue generation in coming years will be challenging.

With the passage of the “IR Promotion Act”, establishment of casinos resorts in Japan becomes legitimate, and which is likely to generate widespread discussion of the “gambling addiction problem”. Triggered by this Act, there will be strong calls for the pachinko industry to take initiatives and actions to address the social issues, including other gambling activities currently exist.

Given the circumstances, the Group intends to steadily promote the development of a gaming environment that meets the needs of diversified gaming fans by lowering the number of high playing cost machines in our halls. In addition, we will further strengthen our existing halls. In particular, improve services by increasing service flexibility to meet the regional needs. Moreover, we continue to work on enhancing general prizes varieties, one of the major factors affecting customers' selection of halls, through expansion of online prize system which enables customers to select general prizes from online shopping sites. Moreover, to maintain stable operating cash flow without being influenced by macro-economy, we will strengthen the revenue driving capability of existing halls, streamline departments, and improve cost efficiency. Our priority is to build a system capable of prompt responds to changes in the environment and efficient decision making, enhancing authority delegation, and constructing an effective and efficient organisational structure.

Apart from securing business profits, we endeavour to create mechanisms and establish an organisation that uphold our corporate value — not only in the medium- to long-term, but for the future as well.

Management Discussion and Analysis

FINANCIAL REVIEW

Gross pay-ins

Gross pay-ins recorded a decrease of ¥14,965 million, or 9.5%, from ¥158,095 million in 2016 to ¥143,130 million in 2017 as a result of the decrease in customer visits which led to lower utilisation of pachinko and pachislot machines.

Gross pay-outs

Gross pay-outs, being the aggregate costs of G-prizes and general prizes exchanged by customers, dropped by ¥13,166 million, or 10.3%, from ¥127,900 million in 2016 to ¥114,734 million in 2017, which generally mirrored the decline in gross pay-ins.

Revenue and revenue margin from pachinko and pachislot business

Revenue from pachinko and pachislot business declined from ¥30,195 million in 2016 to ¥28,396 million in 2017. The decrease in revenue by ¥1,799 million, or 6.0%, was primarily due to the shrinkage of customer base which was the general market trend in the pachinko and pachislot industry.

The revenue margin remained constant with a moderate improvement of 0.7% from 19.1% in 2016 to 19.8% in 2017. Such increase was mainly attributable to the decrease in pay-out ratio which helped to improve the revenue from pachinko and pachislot hall operations.

Other revenue

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

Vending machine income amounted to ¥564 million in 2017. The slight decrease of ¥24 million as compared to ¥588 million in 2016 was resulted from the drop in customer visits.

Income from hotel operations decreased from ¥164 million in 2016 to ¥130 million in 2017 as a result of 2 months' business suspension for hotel renovation work. As a result, the average occupancy rate dropped from 83.0% in 2016 to 70.3% in 2017 accordingly.

Following the opening of the second Spanish restaurant in Nishi-Shinjuku in September 2016, revenue from restaurant operation under the brand "LIZARRAN" increased by ¥42 million from ¥48 million in 2016 to ¥90 million in 2017.

Hall operating expenses

Hall operating expenses decreased by ¥1,097 million, or 4.4%, from ¥25,207 million in 2016 to ¥24,110 million in 2017. Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and rental expenses, amounting to ¥8,836 million, ¥5,110 million and ¥2,697 million, respectively, for the year ended 31 March 2017 (31 March 2016: ¥9,619 million, ¥5,081 million and ¥2,703 million, respectively).

The drop in hall operating expenses was mainly due to the reduction in pachinko and pachislot machine expenses as less pachinko and pachislot machines were replaced as compared to last year.

Management Discussion and Analysis

Administrative and other operating expenses

Administrative and other operating expenses decreased by ¥424 million, or 8.8%, from ¥4,815 million in 2016 to ¥4,391 million in 2017, primarily due to the decrease in provision for impairment loss by ¥46 million as compared to last year; and implementation of various cost savings measures during the current year.

Finance costs, net

Finance costs, net recorded a notable decrease of ¥307 million, or 36.6%, from ¥838 million in 2016 to ¥531 million in 2017. The plunge was attributable to the decrease in total loan balance and centralisation of borrowings from individual subsidiaries level to the Company, allowing higher cost savings on borrowings.

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

Profit before income tax increased by 42.5%, from ¥633 million in 2016 to ¥902 million in 2017, with net profit margin increased from 0.6% in 2016 to 1.7% in 2017.

Profit attributable to shareholders of the Company increased from ¥181 million in 2016 to ¥492 million in 2017, representing a 171.8% increase over last year.

Basic earnings per share was ¥0.41 (2016: ¥0.15). The board of directors of the Company (the "Board") has declared a final dividend of ¥0.03 per share for the year ended 31 March 2017 (2016: ¥0.10 per share) on 19 May 2017.

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 31 March 2017 and 2016, and operating cash flows before movements in working capital of the Group for the years ended 31 March 2017 and 2016, respectively:

	As at 31 March	
	2017	2016
	¥ million	¥ million
Cash and cash equivalents	13,404	12,310
Bank deposits	287	482
	13,691	12,792
Bank loans	2,860	3,627
Syndicated loans	8,190	9,123
Bonds	–	277
Obligations under finance leases	5,208	6,600
	16,258	19,627
Working capital	8,066	7,310
Total equity	27,499	27,097
Gearing ratio	59.1%	72.4%
	For the year ended 31 March	
	2017	2016
	¥ million	¥ million
Operating cash flows before movements in working capital	4,156	4,242

Net current assets of the Group totalled ¥8,066 million as at 31 March 2017 (31 March 2016: ¥7,310 million), and current ratio was 2.12 as at 31 March 2017 (31 March 2016: 1.88). As at 31 March 2017, there were cash and cash equivalents of ¥13,404 million (31 March 2016: ¥12,310 million), in which ¥12,354 million was denominated in Japanese Yen, ¥345 million was denominated in United States dollar and ¥705 million was denominated in Hong Kong dollar. The Group had total borrowings of ¥16,258 million as at 31 March 2017 (31 March 2016: ¥19,627 million). Current portion of borrowings and current portion of obligations under finance leases amounted to ¥3,554 million as at 31 March 2017 (31 March 2016: ¥4,825 million).

The Group's bank borrowings during the current period comprised bank loans, syndicated loans and bonds. As at 31 March 2017, all bonds were repaid and the total bank borrowings amounted to ¥11,050 million (31 March 2016: ¥13,027 million). As at 31 March 2017, the average effective interest rates on bank borrowings ranged from 1.1% to 1.8% (31 March 2016: 1.1% to 2.3%) per annum. Approximately 6.4% of bank borrowings as at 31 March 2017 were fixed rate borrowings.

Details of borrowings and obligations under finance leases are provided in Notes 27 and 28 to the consolidated financial statements of this Annual Report.

Management Discussion and Analysis

HEDGING OF FLOATING RATE BORROWINGS

As at 31 March 2017, 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 year ended 31 March 2017, the gain on fair value for interest rate swap contracts amounted to ¥4 million.

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 59.1% as at 31 March 2017 (31 March 2016: 72.4%). The decrease of 13.3% as compared with that as at 31 March 2016 was mainly due to the decrease in total borrowings of ¥3,369 million and increase in total equity of ¥402 million.

CAPITAL EXPENDITURE

Capital expenditure mainly comprises 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	
	2017	2016
	¥ million	¥ million
Property, plant and equipment	653	4,105
Investment properties	–	43
Others	5	58
	658	4,206

Management Discussion and Analysis

CHARGES ON ASSETS

As at 31 March 2017 and 2016, the carrying values of charged assets were as below:

	2017 ¥ million	2016 ¥ million
Property, plant and equipment	8,195	8,445
Investment properties	678	697
Deposits and other receivables	585	560
	9,458	9,702

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2017 and 2016.

CAPITAL COMMITMENTS

Details of the Group's capital commitments as at 31 March 2017 and 2016 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 2017, other than the event described in Note 21 to the consolidated financial statements, 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.

There is no important events affecting the Company that have occurred since the end of the financial year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2017, the Group had 1,435 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\$322 million was utilised for the year ended 31 March 2017. The remaining net proceeds of HK\$17 million will be used for the originally planned purposes as set out in the Company's prospectus dated 24 March 2015.

Management Discussion and Analysis

FINAL DIVIDEND

The Board has declared a final dividend of ¥0.03 per share for the year ended 31 March 2017 (31 March 2016: ¥0.10 per share) on 19 May 2017, the final dividend will be payable on 7 July 2017 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 2017.

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 19 May 2017 (being 12 May 2017 and 15 to 18 May 2017).

Corporate Governance Report

CORPORATE GOVERNANCE

During the year ended 31 March 2017, 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.

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 leader 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 Shareholders as a whole.

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 seven Directors, with one executive Director, namely Mr. Hisanori TANIGUCHI (also known as JEONG Seonggi), one non-executive Director, namely Mr. Hiroshi BANNAI, and five independent non-executive Directors, namely Mr. Hiroaki MORITA, Mr. Norio NAKAYAMA, Mr. Masaharu TOGO, Mr. Michio MINAKATA and Mr. Yoshihiro KOIZUMI. The biographies of the Directors are set out on pages 25 to 27 of this annual report.

Corporate Governance 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 system, financial reporting system and internal control procedures, overseeing the audit process, internal audit function and performing other duties and responsibilities as assigned by the Board. The Audit Committee also oversees the corporate governance functions.

The Audit Committee held 14 meetings during the year ended 31 March 2017 to review reports on risk management system, internal control system and internal audit function 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 2017 and interim financial statements for the six months ended 30 September 2016 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. Michio MINAKATA (南方美千雄), Mr. Hiroaki MORITA (森田弘昭) and Mr. Hiroshi BANNAI (坂内弘). It is currently chaired by Mr. Michio MINAKATA (南方美千雄), an independent non-executive Director.

Corporate Governance Report

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 2 meetings during the year ended 31 March 2017 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 2017, the number of the senior management (including Directors) whose remuneration fell within the following bands is as follows:

Emolument bands	Number of individuals
Below ¥10,000,000	9
¥10,000,001 to ¥20,000,000	2
¥20,000,001 to ¥30,000,000	1
¥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 2017.

The Nomination Committee currently consists of three members, including two independent non-executive Directors, namely Mr. Hiroaki MORITA (森田弘昭) and Mr. Yoshihiro KOIZUMI (小泉義広), 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 6 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 2016 annual general meeting ("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.

Corporate Governance Report

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

Name of Directors	Number of meetings attended/Eligible to attend for year ended 31 March 2017				
	General Meeting	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
Mr. Hisanori TANIGUCHI (谷口久徳)	1/1	17/17	–	2/2	6/6
Mr. Hiroshi BANNAI (坂内弘) ^{Note}	–	11/11	9/9	–	–
Mr. Hiroaki MORITA (森田弘昭)	1/1	13/17	9/14	2/2	5/6
Mr. Norio NAKAYAMA (中山宣男)	1/1	17/17	5/5	2/2	–
Mr. Masaharu TOGO (東郷正春)	1/1	15/17	–	–	2/2
Mr. Michio MINAKATA (南方美千雄) ^{Note}	–	9/11	9/9	–	–
Mr. Yoshihiro KOIZUMI (小泉義広) ^{Note}	–	11/11	–	–	4/4
Mr. Hiroaki KUMAMOTO (熊本浩明) ^{Note}	1/1	7/7	5/5	–	–

There were 17 meetings of the Board held during the year ended 31 March 2017.

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.

Note: Mr. Hiroshi BANNAI, Mr. Michio MINAKATA and Mr. Yoshihiro KOIZUMI were appointed on 29 June 2016. Mr. Hiroaki KUMAMOTO resigned on 30 June 2016.

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 statutes, 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. Hiroshi BANNAI, Mr. Hiroaki MORITA, Mr. Norio NAKAYAMA, Mr. Masaharu TOGO, Mr. Michio MINAKATA and Mr. Yoshihiro KOIZUMI 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 Report

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 2017, the total fee in relation to the annual audit of the Group amounted to ¥96 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:

	2017 ¥ million
Types of services	
Statutory audit	62
Non-audit services (Note)	34
<hr/>	
Total	96

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

Corporate Governance Report

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 contact person of Ms. NG Sau Mei at the Company is Ms. YIU Wai Man Karen.

For the year ended 31 March 2017, 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 40 to 45 of this annual 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 2017.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Rights to demand Directors to call for a Shareholders' meeting

Any one Shareholder holding no less than 3% of the voting rights in the Company for the last six consecutive months may request the 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.

Right to put enquires to the Board

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.

Rights to demand Directors include a proposal in a Shareholders' meeting

Shareholders continuously holding not less than 1% of the votes of all Shareholders or not less than 300 votes of all Shareholders for the preceding six months may demand the Directors, no later than eight weeks prior to the date of the Shareholders' meeting, notify Shareholders of the summary of the proposals which the demanding Shareholders intend to submit with respect to the matters that are the purpose of the Shareholders' meeting and include a proposal in the notices of the Shareholders' meetings. The Company will notify the Shareholders of the date on which an annual Shareholders' meeting is to be held no less than ten weeks prior to the date of such meeting by making a voluntary announcement on the websites of the Company and the Stock Exchange.

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.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company has formulated the risk management policy and processes which apply to all levels of the Company and its subsidiaries to ensure all material risks which the Company exposed to are properly identified, analysed, evaluated, responded, monitored and communicated.

The Board acknowledges its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group to an acceptable level, rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement or loss.

The structure of the Company's risk management and internal control systems is to ensure (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws and regulations are adhered to and complied with; and (iii) reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements. The main structure of the systems are as follow:

Corporate Governance Report

The Board

- ensures effective systems are maintained in order to safeguard the assets of the Group;
- defines management structure with clear lines of responsibility and limit of authority; and
- determines the nature and extent of significant risk that the Company is willing to take in achieving the strategic objectives and formulates the Group's risk management strategies.

The Audit Committee

- oversees the systems of the Group;
- reviews and discusses with the management of the Company at least annually to ensure that the management of the Company has performed its duty to have the effective systems; and
- considers major findings on internal control matters and makes recommendations to the Board.

The Internal Audit Department

- analyses and appraises independently the adequacy and effectiveness of the Company's risk management and internal control systems;
- reports internal audit findings to Audit Committee; and
- provides recommendations for improvement.

The Risk Management Office

- assists the management of the Company in formulating risk management policies, tools and processes;
- gives advice on the design of the systems and action plans taken by the management of the Company in addressing the identified risks;
- ensures appropriate actions are taken against major risks which affect the Group's businesses and operations; and
- monitors and reviews the systems and report to the Audit Committee.

The Management of the Company (includes heads of departments and business units)

- designs, implements and monitors the systems and ensures the systems are executed effectively;
- identifies risks and takes measures to mitigate risks in day-to-day operations;
- gives prompt responses and conducts follow-up actions against internal control matters raised by internal auditors (if any) or the independent auditor; and
- provides confirmation to the Board on the effectiveness of the systems.

During the reporting period, the Company has carried out the following works in relation to risk management and internal control:

- The management of the Company, through daily risk management activities, identified major risks that may impact the Group's performance; assessed and evaluated the likelihood of occurrence of the identified risks; formulated and implemented measures, controls and action plans to manage and mitigate such risks;

Corporate Governance Report

- Risk management office monitored and reviewed the risk management and internal control systems on an ongoing basis and reported to the Audit Committee regarding the status of the systems;
- Risk management office periodically followed-up and reviewed the implementation of the measures against major risks identified and ensured appropriate actions were taken to address all major risks identified;
- Risk management office reviewed the risk management and internal control systems periodically to identify process and control deficiencies, and designed and implemented remedial actions to address such deficiencies;
- Risk management office ensured appropriate procedures and measures are in place to safeguard assets against unauthorised use or disposition, control capital expenditure, maintain proper accounting records and ensure reliability of financial information used for business and publications;
- Internal audit department carried out analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems; examined of risk-related documentation prepared by the management of the Company and conducted interviews with employees at all levels; and
- The head of internal audit department attended meetings of the Audit Committee and reported on the internal audit findings and responded to queries from members of the Audit Committee.

The Company has internal guidelines in place to ensure inside information is disseminated to the public in accordance with the applicable laws and regulations. Executive officers and financial function of the Group are delegated with responsibilities to control and monitor the proper procedures regarding inside information disclosures. Access to inside information is restricted to relevant senior executives. Relevant personnel and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed. Other procedures including pre-clearance on dealing in Company's securities by Directors and designated members of the management, notification of regular blackout period and securities dealing restrictions to Directors and employees, and identification of project by code name have also been implemented by the Company against possible mishandling of inside information within the Group.

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

There was no significant change in the Company's constitutional documents made during the year.

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 54, 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.

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 34 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").

NON-EXECUTIVE DIRECTOR

Mr. Hiroshi BANNAI (坂内弘), aged 78, has served as a police officer in Fukushima Prefecture from 1962 to his retirement from the police force in 1999, during which he was mainly responsible for handling matters related to antisocial organisations. Mr. Bannai then served as an executive director* (専務理事) for the Fukushima Prefecture Amusement Business Association* (福島県遊技業協同組合). Relying on his experience from the police force, Mr. Bannai has also been an advisor for Fukushima Bank* (福島銀行) from 2002 to 2009. Mr. Bannai is currently an advisor for Xebio Co., Ltd.* (株式会社ゼビオ). Mr. Bannai received his education from the Fukushima Prefectural Wakamatsu Commercial High School (福島県立若松商業高等学校). Mr. Bannai was appointed to the Board to supervise the Group's compliance with applicable laws and regulations relating to adult entertainment.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hiroaki MORITA (森田弘昭), aged 80, has been appointed as an independent non-executive Director since June 2014. Mr. Morita is also a director of IPO Research Institute, Ltd.* (IPO総合研究所株式会社) since April 2000. He 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.

Profile of Directors and Senior Management

Mr. Norio NAKAYAMA (中山宣男), aged 70, has been appointed as an independent non-executive Director since June 2014. 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 69, has been appointed as an independent non-executive Director since June 2014. 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.

Mr. Michio MINAKATA (南方美千雄), aged 50, was appointed as an independent non-executive Director in June 2016. He started his career at KPMG Century Audit Corporation* (KPMGセンチュリー監査法人). Mr. Minakata then worked for several companies and offices including NASDAQ Japan* (ナスダックジャパン) based on his capability in the accounting field. Mr. Minakata is currently serving as the representative director* (代表取締役) of IPO Bank* (株式会社IPOバンク). Further, Mr. Minakata is currently also an advisor* (監査役) for Showcase TV Inc.* (株式会社ショーケース・ティービー), the shares of which are listed on the Market of the High-Growth and Emerging Stocks on The Tokyo Stock Exchange (3909:JP). Mr. Minakata received a bachelor's degree in economics from the Keio University* (慶應義塾大学) in March 1990. Mr. Minakata has also been a member of the Japanese Institute of Certified Public Accountants since May 1996. Mr. Minakata was appointed to the Board to provide advice to the Company based on his accounting and management background and expertise.

Mr. Yoshihiro KOIZUMI (小泉義広), aged 62, was appointed as an independent non-executive Director in June 2016. He has worked for several leading Japanese and foreign companies over the years, including Toshiba Co., Ltd.* (株式会社東芝) from 1979 to 1986 and Daiwa Securities Co., Ltd.* (大和証券株式会社) from 1986 to 1992. Mr. Koizumi also has experience in working for banks and financial institutions, including Deutsche Bank* (ドイツ銀行) from 1994 to 1997 and Societe General Bank* (ソシエテジェネラル銀行) from 1997 to 2002. Thereafter, Mr. Koizumi also served as the representative director* (代表取締役) of Mariner Financial Service Co., Ltd.* (株式会社マリナー・フィナンシャル・サービス) from 2002 to 2015 and has been serving as the representative director* (代表取締役) of Clear Markets Japan Co., Ltd* (Clear Markets Japan株式会社) since 2014. Mr. Koizumi graduated from the Department of Commerce Science at Keio University* (慶應義塾大学商学部). Mr. Koizumi has also obtained his qualification as a certified public accountant in the United States in 1991. Mr. Koizumi was appointed to the Board to provide advice to the Company based on his financial and management background and expertise.

Profile of Directors and Senior Management

EXECUTIVE OFFICERS

Mr. Akinori OHISHI (大石明徳), aged 52, has been appointed as Executive Officer since June 2014. 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 51, has been appointed as Executive Officer since November 2014. He is also a director of Niraku Corporation since June 2012. He is the head of sales department and oversees 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 63, was 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 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 65, 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.

Mr. Tsuneo NAKAJIMA (中島常夫), aged 69, joined the Group in 2016 as statutory auditor* (監査役) of Niraku Corporation. Mr. Nakajima has served as a police officer in Fukushima Prefecture from 1966 to his retirement from the police force in 2008, during which he successively filled various important posts, including head of police station and chief of detective division.

* 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 2017.

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

The financial year ended 31 March 2017 is another challenging year for the Group, which pachinko operators saw little signs of improvement in the pachinko and pachislot industry. The prominent factor of the market downturn being the continuous decline in the number of pachinko players as a wide range of entertainment alternatives available in the market. The downturn was further worsened with the effect of new standard which confined pachinko operators to replace all high-gambling machines that were seen to be the traditional source of revenue for pachinko operators.

For the year ended 31 March 2017, the Group's gross pay-ins from pachinko and pachislot business amounted to ¥143,130 million, comprising revenue from suburban halls of ¥136,122 million and urban halls of ¥7,008 million, representing a decrease of 9.4% and 9.8%, respectively, as compared to last year.

	For the year ended 31 March	
	2017	2016
	¥ million	¥ million
Gross pay-ins		
— Suburban halls	136,122	150,326
— Urban halls	7,008	7,769
	143,130	158,095
Gross pay-outs		
— Suburban halls	(109,169)	(121,600)
— Urban halls	(5,565)	(6,300)
	(114,734)	(127,900)
Revenue from pachinko and pachislot business		
— Suburban halls	26,953	28,726
— Urban halls	1,443	1,469
	28,396	30,195

Report of the Directors

STRATEGIES

Grappling with the decline in pachinko and pachislot revenue, the Group has been persistent in expanding its market share through revamping of existing halls, including interior renovation offering a more pleasant playing environment; as well as launch of online prize redemption system allowing a wider variety of general prizes for customers. Opening new halls is undoubtedly a means in driving additional income to the Group. During the year, a mega store equipped with 1,280 pachinko and pachislot machines was opened in Fukushima City. This mega store marked as the Group's twenty-first store in Fukushima prefecture, generating additional income and establishing a stable customer base. For the year ended 31 March 2017, gross pay-ins and revenue generated from this new hall amounted to ¥8,214 million and ¥1,105 million, respectively.

The Group carried out frequent review on machine mix, ensuring types of machine offered met the customer preferences. Seeing the increasing popularity in pachislot machines, the Group has adjusted the proportion of pachinko machines to pachislot machines from 66% to 34% as at 31 March 2016 to 64% to 36% as at 31 March 2017. Further, the Group continued to optimise the pay-out ratio, a key factor which has direct impact on customer visits, in order to drive higher traffic. These measures were successful in increasing revenue margin and maintaining stable machine utilisation rate for the year ended 31 March 2017.

	For the year ended 31 March	
	2017	2016
Revenue margin		
— Suburban halls	19.8%	19.1%
— Urban halls	20.6%	18.9%
Machine utilisation rate		
— Pachinko	23.2%	24.2%
— Pachislot	23.2%	23.2%
Number of machines		
— Pachinko	17,913	18,537
— Pachislot	10,213	9,602
	28,126	28,139

Report of the Directors

To maximise the returns to Shareholders, the Group is determined to take every step to increase its profit. Apart from opening new halls as mentioned, the Group frequently reviews the business performance of each existing hall. Necessary steps will be taken for halls which are identified as underperformed. During the current year, the Group, after careful consideration of its future profitability, decided to close down a loss-making urban hall in Maebashi area. The Group considered its closure would allow better resource allocation within the Group. Further, the Group reckoned that cost control is an effective means to improve the net profit margin. With the tightened cost control implemented during the year ended 31 March 2017, administrative and other operating expenses was decreased by ¥424 million as compared to last year. In addition, the Group centralised its financing from individual subsidiaries level to the Company, allowing higher bargaining power with financial institutions which leads to higher cost savings on borrowings. Following this new arrangement, interest expense was drastically reduced by ¥306 million for the year ended 31 March 2017 as compared to last year.

	As at 31 March	
	2017	2016
Number of halls		
— Suburban halls	49	48
— Urban halls	6	7
	<hr/>	<hr/>
	55	55
	<hr/>	<hr/>
	For the year ended 31 March	
	2017	2016
Net profit margin	1.7%	0.6%
Earnings per share (in ¥)	0.41	0.15

RECENT DEVELOPMENT

Despite the severe market conditions, the management of the Group is confident in maintaining its returns from the core business; and at the same time explores new opportunities to broaden the revenue source, especially in the hospitality industry. On 26 September 2016, the second Spanish restaurant under the brand “LIZARRAN” was opened in Nishi-Shinjuku, a popular shopping and entertainment area among the younger generation in Tokyo. This new outlet has brought in ¥15 million revenue to the Group. The management is planning to open its third restaurant in 2018.

Report of the Directors

CHALLENGES AHEAD AND FUTURE PLANS

With the advocacy of new standards which promote reduction of gambling element of pachinko machines, operators in pachinko industry have implemented a voluntary replacement of high gambling property machines by the end of December 2016. Future standards governing both pachinko and pachislot machines are expected to move toward low gambling property machines. This trend will enable customers to play at a reduced cost; and while machine development by machine manufacturers progresses, the range of customers is expected to be broadened. Nevertheless, since the low gambling machines will generate lesser revenue (gross pay-ins) than the high gambling property machines, the pachinko business in the coming years continues to be challenging.

In December 2016, the IR Promotion Act was approved by the Japanese Diet. This Act obliges the government to take action within a year after its enactment with the objective of submitting the necessary laws for establishing integrated resort areas, including casinos. This law effectively permits the establishment of casinos in Japan, which has triggered a major discussion of “gambling addiction problem”. For a long time, the pachinko industry has been actively considering this “gambling addiction problem” as a “problem caused by excessive obsession”. However, following the passage of this Act, there are strong calls for the pachinko industry to take initiatives and necessary actions to address these social issues, including issues arising from other gambling activities currently exists.

To tackle with the adverse market situation, the Group intends to develop a gaming environment that meets the needs of diversified gaming fans by lowering the number of high playing cost machines in the halls. In addition, the Group will further strengthen the existing halls. In particular, improve services by increasing service flexibility to meet regional needs. To do this, the Group will continue to work on enhancing general prizes varieties, one of the major factors affecting customers’ selection of halls, through expansion of online prize system which enables customers to select general prizes from online shopping sites.

The Group will promote its “active local engine” marketing campaign which was introduced earlier this year. Through this campaign, halls will become nexus points for various entertainment activities in the region, thus deepen the connection with local community, enhance the market presence of the Group and eventually increase customer base, their recognition and loyalty.

Listing on the Stock Exchange in 2015 allows the Group to gain a foothold into Asian market. The continuous economic growth in the Asian countries has increased the demand for leisure and entertainment activities. The Group will look for every opportunity for business expansion in these countries. The management is convinced that its profound experience will prove to be useful in meeting the needs in these regions. The Group may fund possible future expenditures by internal or external funding as per the prevailing circumstances.

Details of future development of the Group can also be found under the “Chairman’s Statement”.

Report of the Directors

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 2017.

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 2017, the Group employed 1,435 staff, a 3.8% reduction compared to 2016.

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 2017.

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;
- risks related to human resources and systems application;
- 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 related laws and regulations; and
- uncertainty as to the impact on pachinko industry after the passage of the IR Promotion Act.

Report of the Directors

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2017 are set out in the consolidated statement of comprehensive income on page 46.

The Directors have declared the payment of a final dividend of ¥0.03 per share totaling ¥36 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 2017.

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 CAPITAL

Details of the share capital for the year ended 31 March 2017 are set out in Note 23 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

During the year ended 31 March 2017, 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 49.

Distributable reserves of the Company as at 31 March 2017 amounted to approximately ¥2,960 million.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2017 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 year ended 31 March 2017 and 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 year ended 31 March 2017 and up to the date of this annual report.

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)

Non-Executive Director

Mr. Hiroshi BANNAI (坂内弘)

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. Michio MINAKATA (南方美千雄)

Mr. Yoshihiro KOIZUMI (小泉義広)

Mr. Hiroaki KUMAMOTO (熊本浩明)^{Note}

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.

Note: Mr. Hiroaki KUMAMOTO resigned on 30 June 2016.

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.

Report of the Directors

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 2017 and 2016 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 8 and 36 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 2017, 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%
Hiroshi Bannai	Beneficial Owner	106,000 common Shares	0.00%

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 2017.

Save as disclosed above, as at 31 March 2017, 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.

Report of the Directors

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

As at 31 March 2017, 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 (鄭慶恵)	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%

Report of the Directors

	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 (谷口詰成)* (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.

Report of the Directors

(10) All interests stated are long positions.

(11) There were 1,195,850,460 Shares in issue as at 31 March 2017.

Save as disclosed above, and as at 31 March 2017, 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 ¥1 million.

CONNECTED TRANSACTIONS

The Directors confirm that during the year ended 31 March 2017, 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 2017, less than 1.0% of the Group’s revenue were attributed by the Group’s five largest customers; while 66.2% and 84.3% of the Group’s total purchases were attributed by the Group’s largest and the five largest suppliers, respectively. The largest supplier of the Group supplies G-prize to the Group’s pachinko halls and has a business relationship of more than 10 years with the Group. 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 2017 or any of their respective associates held any interest in any of the five largest suppliers of the Group.

Report of the Directors

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 2017.

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 2017.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

Effective from the current financial year ended 31 March 2017, the Group is required to publish an environmental, social and governance report. The report will be published separately no longer than three months after the publication of this annual report.

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, 19 May 2017

* 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)

OPINION

What 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 (the "Group") set out on pages 46 to 106, which comprise:

- the consolidated statement of financial position as at 31 March 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Independent Auditor's Report

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of property, plant and equipment
- Provision for deposit paid for potential acquisition

Independent Auditor's Report

Key Audit Matter

Impairment assessment of property, plant and equipment

Refer to Note 4 (Critical accounting estimates and judgements) and 13 (Property, plant and equipment) to the consolidated financial statements for the related disclosures.

As at 31 March 2017, the Group has property, plant and equipment of ¥26,406 million related to the cash-generating units ("CGUs") of each individual pachinko and pachislot hall, a pachinko and pachislot hall with hotel business, and each individual restaurants.

The performance of the Group's pachinko and pachislot hall operations were impacted by keen competition among the pachinko and pachislot hall operators in Japan. Management reviews for impairment whenever events or changes in circumstances indicate that carrying amount of a CGU may not be recoverable. In the view that some of the CGUs had performed below management's expectation and continuously making losses, management considered there was impairment indicators for these CGUs. Management performed impairment assessment to assess the recoverable amounts of these CGUs, which were determined as the fair value less cost to sell or value-in-use, whichever was higher. The value-in-use calculations were based on future cash flow forecasts of the CGUs. Based on management's assessment, a provision for impairment loss of ¥271 million was recorded for the year ended 31 March 2017.

We focused on this area due to the significant judgments and estimates involved in the determination of value-in-use calculations, including the revenue growth rate and discount rate.

How our audit addressed the Key Audit Matter

In relation to the impairment assessment of property, plant and equipment performed by management, we assessed the reasonableness of management's assessment which is to identify impairment indicators for the CGUs that had performed below management's expectation and continuously making losses. We challenged management's criteria for identification of impairment indication by comparing to the historical performance and operational development of the CGUs.

Our procedures in relation to management's value-in-use calculations include:

- Challenged management's assumption of revenue growth rate by comparing the rate to industry trends, the Group's historical performance and operational development;
- Assessed management's assumption of discount rate by comparing to the cost of capital and cost of debt of comparable organisations in the industry;
- Compared the current year actual results with the prior year forecasts to consider the reasonableness of management's forecasts; including that the relevant factors such as the Group's business development etc, had been taken into account in the current year forecasts;
- Reconciled the data input to supporting evidence, such as approved budgets and considered the reasonableness of these budgets based on our knowledge to the business; and
- Evaluated the sensitivity analysis performed by management around the revenue growth rate to ascertain the extent and likelihood of such changes have been appropriately considered.

Based on the procedures performed, we found the judgements and estimates made by management in relation to the value-in-use calculations were supportable by available evidence.

Independent Auditor's Report

Key Audit Matter

Provision for deposit paid for a potential acquisition

Refer to Note 4 (Critical accounting estimates and judgements) and Note 21 (Prepayments, deposits and other receivables) to the consolidated financial statements for the related disclosures.

On 19 May 2016, the Group entered into an agreement (the "Agreement") with Coastal Heritage Limited ("Coastal Heritage") to acquire 66.7% of the equity interest in Nha Trang Holdings Limited ("Nha Trang"), a company engaged in the Vietnamese and pinot duck restaurants operation in Hong Kong. The Group had paid ¥149 million (equivalent to approximately HK\$10 million) to Coastal Heritage as an acquisition deposit (the "Deposit"). Pursuant to the Group's announcement dated 15 June 2016, the Group decided not to proceed with the acquisition on the ground of certain conditions precedents under the Agreement not being satisfied, and had formally served written notice to Coastal Heritage to terminate the Agreement and demanded for refund of the Deposit in full. A writ of summon was filed by the Group in November 2016. As at 31 March 2017, the Group was undergoing legal process to claim for the refund of the Deposit. Management considered the Deposit was collectible based on advice from the external lawyer that the Company has reasonable grounds to obtain refund of the Deposit and did not make any provision as at 31 March 2017.

We focused on this area due to the judgement involved in assessing the provision for the Deposit based on the views and arguments presented by the management and the external lawyer.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

How our audit addressed the Key Audit Matter

We discussed with management and examined the terms of the Agreement for terminating the Agreement and refund of the Deposit.

We conducted discussions with management and the external lawyer to understand the rationale for terminating the Agreement and assessed management's grounds based on the terms of the Agreement. We also understood actions they have taken to claim for the refund of the Deposit including obtaining supporting documents such as correspondence with Coastal Heritage and the writ of summon served with the High Court, and latest development of the legal proceeding. In particular whether there was any significant delay from the initially expected timetable of the legal proceeding and whether there was any significant change in circumstance that may heighten the risk of not being able to recover the Deposit.

We have also discussed the merits of the case with the external lawyer, obtained the legal opinion and considered the Group's grounds and arguments in assessing the likelihood of collecting the full amount of the Deposit based on the current circumstance.

Based upon the procedures performed above, we considered that the judgement made by management in assessing the provision for the Deposit was supportable by the available evidence.

Independent Auditor's Report

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Ka Ho.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 May 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2017

	Note	2017 ¥ million	2016 ¥ million
Revenue	5	29,180	30,995
Other income	6	801	770
Other losses, net	6	(47)	(272)
Hall operating expenses	7	(24,110)	(25,207)
Administrative and other operating expenses	7	(4,391)	(4,815)
Operating profit		1,433	1,471
Finance income		55	54
Finance costs		(586)	(892)
Finance costs, net	9	(531)	(838)
Profit before income tax		902	633
Income tax expense	10	(410)	(452)
Profit for the year attributable to shareholders of the Company		492	181
Other comprehensive gain/(loss)			
Change in value of financial assets through other comprehensive income		138	(241)
Total comprehensive income/(loss) for the year attributable to shareholders of the Company		630	(60)
Earnings per share for profit attributable to shareholders of the Company			
— Basic and diluted (expressed in Japanese Yen per share)	11	0.41	0.15

Consolidated Statement of Financial Position

As at 31 March 2017

	Note	2017 ¥ million	2016 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment	13	26,406	28,470
Investment properties	14	678	697
Intangible assets	15	182	210
Prepayments, deposits and other receivables	21	3,866	4,198
Financial assets at fair value through profit or loss	17	104	106
Financial assets at fair value through other comprehensive income	17	1,210	1,013
Deferred income tax assets	29	1,656	1,781
Long-term bank deposits	22	35	185
		34,137	36,660
Current assets			
Inventories	19	20	413
Trade receivables	20	88	64
Prepayments, deposits and other receivables	21	1,457	1,456
Financial assets at fair value through profit or loss	17	–	100
Bank deposits and bank deposits with maturity over 3 months	22	252	297
Cash and cash equivalents	22	13,404	12,310
Current income tax recoverable		55	957
		15,276	15,597
Total assets		49,413	52,257

Consolidated Statement of Financial Position

As at 31 March 2017

	Note	2017 ¥ million	2016 ¥ million
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	23	3,000	3,000
Reserves	24	24,499	24,097
Total equity		27,499	27,097
LIABILITIES			
Non-current liabilities			
Borrowings	27	8,656	9,732
Obligations under finance leases	28	4,048	5,070
Provisions and other payables	26	1,989	2,057
Derivative financial instruments	18	11	14
		14,704	16,873
Current liabilities			
Trade payables	25	123	132
Borrowings	27	2,394	3,295
Obligations under finance leases	28	1,160	1,530
Accruals, provisions and other payables	26	3,532	3,326
Derivative financial instruments	18	1	2
Current income tax liabilities		–	2
		7,210	8,287
Total liabilities		21,914	25,160
Total equity and liabilities		49,413	52,257

The notes on pages 51 to 106 are an integral part of these consolidated financial statements.

The financial statements on pages 46 to 106 were approved by the Board of Directors on 19 May 2017 and were signed on its behalf

Hisanori Taniguchi
Director

Consolidated Statement of Changes in Equity

For the Year ended 31 March 2017

	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 2015	10	11,734	(16,028)	107	411	26,622	22,856
Comprehensive income							
Profit for the year	–	–	–	–	–	181	181
Other comprehensive (loss)/income							
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(277)	36	(241)
Total comprehensive (loss)/income for the year	–	–	–	–	(277)	217	(60)
Issue of shares (Note 23)	2,990	2,497	–	–	–	–	5,487
Transaction costs attributable to issuance of shares	–	(277)	–	–	–	–	(277)
Dividend	–	–	–	–	–	(909)	(909)
Total transaction with shareholders	2,990	2,220	–	–	–	(909)	4,301
Balances at 31 March 2016 and 1 April 2016	3,000	13,954	(16,028)	107	134	25,930	27,097
Comprehensive income							
Profit for the year	–	–	–	–	–	492	492
Other comprehensive income							
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	138	–	138
Total comprehensive loss for the year	–	–	–	–	138	492	630
Final dividend relating to 2016 (Note 30)	–	–	–	–	–	(120)	(120)
Interim dividend relating to 2017 (Note 30)	–	–	–	–	–	(108)	(108)
Total transactions with shareholders	–	–	–	–	–	(228)	(228)
Balance at 31 March 2017	3,000	13,954	(16,028)	107	272	26,194	27,499

The notes on pages 51 to 106 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the Year ended 31 March 2017

	Note	2017 ¥ million	2016 ¥ million
Cash flows from operating activities			
Cash generated from operations	31	5,257	4,715
Interest paid		(493)	(821)
Income tax refund/(paid)		556	(1,736)
Net cash generated from operating activities		5,320	2,158
Cash flows from investing activities			
Purchase of property, plant and equipment		(478)	(2,117)
Purchase of investment properties	14	–	(43)
Purchase of intangible assets	15	(5)	(58)
Proceeds from disposal of financial assets at fair value		100	101
Proceeds from bank deposits with maturity over 3 months		3,300	3,585
Placement of bank deposits with maturity over 3 months		(3,255)	(1,596)
Placement of long-term bank deposits		–	(60)
Proceeds from long-term bank deposits		150	–
Deposit for acquisition of a restaurant operation	21	(149)	–
Interest received		3	2
Dividend received		61	64
Net cash used in investing activities		(273)	(122)
Cash flows from financing activities			
Proceeds from issue of new shares	23	–	5,487
Transaction costs directly attributable to issue of new shares	23	–	(277)
Repayment of obligations under finance leases		(1,655)	(1,215)
Proceeds from bank borrowings		2,640	15,018
Repayment of bank borrowings		(4,710)	(17,310)
Dividends paid		(228)	(909)
Net cash (used in)/generated from financing activities		(3,953)	794
Net increase in cash and cash equivalents		1,094	2,830
Cash and cash equivalents at beginning of the year		12,310	9,480
Cash and cash equivalents at end of the year		13,404	12,310

The notes on pages 51 to 106 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 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 on 8 April 2015.

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

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 requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(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 2016:

IFRSs (Amendment)	Annual improvements 2012 to 2014 cycle
IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception
IFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
IFRS 14	Regulatory deferral accounts
IAS 1	Disclosure initiative
IAS 16 and IAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation
IAS 16 and IAS 41 (Amendment)	Agriculture: Bearer plants
IAS 27 (Amendment)	Equity method in separate financial statements

The adoption of these amendments did not have any impact on the current period or only prior period.

(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 2017 or later periods, but have not been early adopted by the Group.

		Effective for accounting year beginning on or after
IFRS 12 (Amendment)	Income taxes	1 January 2017
IFRS 7 (Amendment)	Statement of cash flows	1 January 2017
IFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 10 and IFRS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	<i>To be determined</i>

Notes to the Consolidated Financial Statements

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* (Continued)

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2017 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 15, "Revenue from contracts with customers"

IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's consolidated financial statements and is not able to estimate the impact of the new rules on the Group's financial statements at this stage. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16, "Leases"

IFRS 16 will result in almost all leases being recognised on the consolidated 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 standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of ¥9,777 million (Note 33(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 new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(a) *Business combination under common control*

The consolidated financial statements incorporate 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(b) *Business combination other than under common controls* (Continued)

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.

(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.

Notes to the Consolidated Financial Statements

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, net" in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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 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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.21 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Revenue recognition (Continued)

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.

2.22 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Leases (Continued)

(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 2017, if HK\$ had strengthened/weakened by 5% against the ¥, with all other variables held constant, post-tax profit for the year would have been approximately ¥25 million higher or lower (for the year ended 31 March 2016: ¥5 million), mainly as a result of foreign exchange differences on translation of HK\$ denominated cash at bank balance.

At 31 March 2017, if US\$ had strengthened/weakened by 5% against the US\$, with all other variables held constant, post-tax profit for the year would have been approximately ¥12 million, higher or lower (for the year ended 31 March 2016: ¥10 million), mainly as a result of foreign exchange differences on translation of US\$ denominated cash at bank balance.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(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 2017, 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 ¥6 million (2016: ¥1 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 2017 (2016: Same), and accordingly, sensitivity analysis has not been disclosed.

(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.

	2017 ¥ million	2016 ¥ million
Impact on other components of equity		
Share prices:		
— increase by 5%	54	44
— decrease by 5%	(54)	(44)

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(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 99% (2016: 98%) of the Group's 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 2017, top 5 customers of the Group accounted for approximately 85% (2016: 74%) 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.

(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.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) *Liquidity risk* (Continued)

	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 2017					
Trade payables	123	–	–	–	123
Other payables (excluding accruals)	1,589	1	12	2,792	4,394
Borrowings	2,544	2,060	4,790	2,229	11,623
Obligations under finance leases	1,364	999	1,709	2,264	6,336
	5,620	3,060	6,511	7,285	22,476
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

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.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management (Continued)

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 2017 and 2016 were as follows:

	2017 ¥ million	2016 ¥ million
Borrowings	11,050	13,027
Obligations under finance leases	5,208	6,600
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Total debt	16,258	19,627
Equity	27,499	27,097
<hr/>		
Gearing ratio	59.1%	72%

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).

Notes to the Consolidated Financial Statements

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 2017				
Assets				
Financial assets at fair value through profit or loss				
— Unlisted securities	—	104	—	104
Financial assets at fair value through other comprehensive income				
— Listed securities	1,080	—	—	1,080
— Unlisted securities	—	—	130	130
	1,080	104	130	1,314
Liabilities				
Derivative financial liabilities				
— Interest rate swaps	—	12	—	12
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

Notes to the Consolidated Financial Statements

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 2017, instruments included in level 2 comprise 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.

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 March 2017.

	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)
<hr/>	
Balance as at 31 March 2016, 1 April 2016 and 31 March 2017	130

As at 31 March 2017, 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 year ended 31 March 2017.

3.4 Offsetting financial assets and financial liabilities

As at 31 March 2017 and 2016, there were no financial assets or financial liabilities which were subject to offsetting, enforceable master netting or similar agreements.

Notes to the Consolidated Financial Statements

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) 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.

(c) Provision for impairment of other receivables

Significant judgement is exercised in the assessment of the collectability of receivables including the deposit paid for acquisition of a restaurant ("Deposit") (Note 21). In making its judgement, management considers a wide range of factors such as results of follow-up procedures performed, payment trend including subsequent payments, financial positions of the debtors and status of legal process in claiming the amount of Deposit.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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

	2017 ¥ million	2016 ¥ million
Revenue		
Gross pay-ins	143,130	158,095
Less: gross pay-outs	(114,734)	(127,900)
	<hr/>	<hr/>
Revenue from pachinko and pachislot hall business	28,396	30,195
Vending machine income	564	588
Revenue from hotel operations	130	164
Revenue from restaurant operations	90	48
	<hr/>	<hr/>
	29,180	30,995

(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.

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, trade receivables, prepayments, deposits and other receivables, bank 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.

The segment information provided to the executive directors for the years ended 31 March 2017 and 2016 are as follows:

	Year ended 31 March 2017		
	Pachinko and pachislot hall operations ¥ million	Others ¥ million	Total ¥ million
Segment revenue from external customers	28,960	220	29,180
Segment results	1,576	(118)	1,458
Corporate expenses			(556)
Profit before income tax			902
Income tax expense			(410)
Profit for the year			492
Other segment items			
Depreciation and amortisation expenses	(2,392)	(28)	(2,420)
Finance income	55	–	55
Finance costs	(586)	–	(586)
Capital expenditures	524	134	658

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

	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

The segment assets as at 31 March 2017 and 2016 are as follows:

	Pachinko and pachislot hall operations ¥ million	Others ¥ million	Total ¥ million
As at 31 March 2017			
Segment assets	40,437	636	41,073
Unallocated assets			6,684
Deferred income tax assets			1,656
Total assets			49,413
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

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

No single external customer contributed more than 10% revenue to the Group's revenue for the year ended 31 March 2017 and 2016.

The Group is domiciled in Japan and all non-current assets of the Group as at 31 March 2017 and 2016 are located in Japan.

6 OTHER INCOME AND OTHER LOSSES, NET

	2017 ¥ million	2016 ¥ million
Other income		
Rental income	148	152
Income from expired IC and membership cards	33	35
Dividend income	61	64
Compensation and subsidies (Note)	13	308
Income from scrap sales of used pachinko and pachislot machines	500	192
Others	46	19
	801	770
Other losses, net		
(Loss)/gain on fair value for financial assets at fair value through profit or loss	(2)	6
Gain/(loss) on fair value for derivative financial instruments	4	(16)
Gain on disposal of derivative financial instruments	-	6
Loss on disposal of property, plant and equipment	(64)	(57)
Net exchange gain/(loss)	15	(211)
	(47)	(272)

Note: Compensation received for the year ended 31 March 2016 was mainly from the government for closure of a hall due to city planning.

Notes to the Consolidated Financial Statements

7 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2017 ¥ million	2016 ¥ million
Auditors' remuneration		
— Audit fees	62	60
— Other services	34	24
Employee benefits expenses		
— Hall operations	5,110	5,081
— Administrative and others	1,576	1,556
Operating lease rental expense in respect of land and buildings	2,816	2,841
Depreciation of property, plant and equipment	2,368	2,387
Depreciation of investment properties	19	27
Write off of other receivables	17	—
Amortisation of intangible assets	33	37
Reinstatement expenses	25	26
Recruitment expenses	78	218
Travelling and transportation	134	169
Other taxes and duties	385	481
Repairs and maintenance	183	240
Utilities expenses	971	1,133
Consumables and cleaning	1,741	1,735
Outsourcing service expenses	1,008	1,065
G-Prize procurement expenses to wholesalers	778	802
Pachinko and pachislot machines expenses (Note i)	8,836	9,619
Advertising expenses	1,264	1,450
Service fee (Note 34)	35	33
Impairment loss on property, plant and equipment	271	317
Legal and professional fees	66	35
Loss on termination of opening of a hall (Note ii)	72	—
Professional expenses incurred in connection with the Company's listing	—	84
Others	619	602
	28,501	30,022

Notes:

- (i) 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.
- (ii) During the year ended 31 March 2017, the Group has decided to abandon the plan of opening a new hall. As a result, a loss of ¥72 million was charged to the consolidated statement of comprehensive income, including forfeiture of rental deposit of ¥39 million, write off of construction in progress of ¥14 million (Note 13) and penalty charge for early termination of the rental contract of ¥19 million.

Notes to the Consolidated Financial Statements

8 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2017 ¥ million	2016 ¥ million
Salaries, bonuses and allowances	5,430	5,378
Pension costs — defined contribution plan	76	72
Other employee benefits	1,180	1,187
	6,686	6,637

(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 (2016: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2017 include 1 director (2016: 1 director) whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining 4 (2016: 4) individuals during the year ended 31 March 2017 are as follows:

	2017 ¥ million	2016 ¥ million
Salaries, allowances and other benefits	82	80
Bonuses	—	1
Pension cost — defined contribution plan	3	3
	85	84

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

Emolument bands	Number of individuals	
	2017	2016
¥7,143,000 to ¥14,286,000 (equivalent to approximately HK\$500,000 to HK\$1,000,000)	1	1
¥14,286,001 to ¥21,429,000 (equivalent to approximately HK\$1,000,001 to HK\$1,500,000)	1	1
¥21,429,001 to ¥28,571,000 (equivalent to approximately HK\$1,500,001 to HK\$2,000,000)	2	2

Notes to the Consolidated Financial Statements

9 FINANCE COSTS, NET

	2017 ¥ million	2016 ¥ million
Finance income		
Bank interest income	3	2
Other interest income	52	52
	55	54
Finance costs		
Bank borrowings	(213)	(523)
Bond interest expense	—	(2)
Obligations under finance leases	(280)	(296)
Provision for unwinding discount	(93)	(71)
	(586)	(892)
Finance costs, net	(531)	(838)

10 INCOME TAX EXPENSE

	2017 ¥ million	2016 ¥ million
Current tax		
— Japan corporate income tax	344	302
Deferred income tax (Note 29)	66	150
	410	452

Japan corporate income tax has been calculated on the estimated assessable profit for the years ended 31 March 2017 and 2016 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 2017 as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 March 2017 and 2016.

Notes to the Consolidated Financial Statements

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:

	2017 ¥ million	2016 ¥ million
Profit before income tax	902	633
Tax calculated at applicable Japan corporate income tax rate	272	204
Income not subject to tax	(4)	(4)
Expenses not deductible for tax purpose	94	32
Unrecognised tax losses	32	76
Effect of change in tax rate	24	163
Tax deduction	(8)	(19)
	410	452

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 30.2% (2016: 32.5%) for the year ended 31 March 2017.

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%.

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 2017 and 2016.

	2017	2016
Profit attributable to shareholders of the Company (¥million)	492	181
Weighted average number of ordinary shares in issue (thousands)	1,195,850	895,850
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)	1,195,850	1,190,112
Basic and diluted earnings per share (¥)	0.41	0.15

No diluted earnings per share is presented as there was no potential dilutive shares during the years ended 31 March 2017 and 2016. Diluted earnings per share is equal to the basic earnings per share.

Notes to the Consolidated Financial Statements

12 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 March 2017 and 2016:

Name	Country and date of incorporation	Principal activities	Type of legal status	Issued and paid up capital	Effective interest held as at 31 March	
					2017	2016
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 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
Additions	–	1,887	455	919	33	811	4,106
Transfer	–	289	516	–	–	(805)	–
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 1 April 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
Year ended 31 March 2017							
Opening net book amount	7,563	10,861	5,355	4,595	67	29	28,470
Additions	–	16	164	138	11	324	653
Transfer	–	44	238	28	–	(310)	–
Disposals	–	–	(62)	(2)	–	–	(64)
Impairment (Note 7)	–	(83)	(120)	(68)	–	–	(271)
Write off (Note 7)	–	–	–	–	–	(14)	(14)
Depreciation (Note 7)	–	(748)	(662)	(930)	(28)	–	(2,368)
Closing net book amount	7,563	10,090	4,913	3,761	50	29	26,406
At 31 March 2017							
Cost	7,752	17,510	12,330	12,202	152	29	49,975
Accumulated depreciation and provision for impairment	(189)	(7,420)	(7,417)	(8,441)	(102)	–	(23,569)
Net book amount	7,563	10,090	4,913	3,761	50	29	26,406

Notes to the Consolidated Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expenses of ¥2,312 million (2016: ¥2,320 million) has been charged in “hall operating expenses” and ¥56 million (2016: ¥67 million) has been charged in “administrative and other operating expenses” for the year ended 31 March 2017.

Construction in progress as at 31 March 2017 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 2017 and 2016 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:

	2017 ¥ million	2016 ¥ million
Buildings		
Cost — capitalised finance leases	6,864	6,864
Accumulated depreciation	(2,773)	(2,442)
	4,091	4,422

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 restaurants.

For the year ended 31 March 2017, in view that some of the CGUs in Japan are performing below management’s expectation 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. Fair value less cost to sell is measured using the market approach measured with reference to resale values of similar properties and is categorised under level 2 of the fair value hierarchy. Value-in-use 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 2017 and 2016.

	2017	2016
Revenue growth rate	0%	0%
Discount rate	8.5%	9.3%

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 2017 amounted to ¥271 million (2016: ¥317 million).

If the forecast revenue was lower by 5%, with all other variable held constant, the recoverable amount of the CGUs would have recognised further impairment against property, plant and equipment of ¥8 million.

Notes to the Consolidated Financial Statements

14 INVESTMENT PROPERTIES

	2017 ¥ million	2016 ¥ million
At 1 April		
Cost	854	811
Accumulated depreciation	(157)	(130)
	697	681
At cost		
At beginning of year	697	681
Additions	–	43
Depreciation	(19)	(27)
	678	697
At 31 March		
Cost	854	854
Accumulated depreciation	(176)	(157)
	678	697

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 2017 and 2016.

Investment properties are situated in Japan and rented out under operating lease. Amounts recognised in consolidated statement of comprehensive income for investment properties are as follows:

	As at 31 March	
	2017 ¥ million	2016 ¥ million
Rental income	87	96
Direct operating expenses from property that generated rental income	(16)	(27)
	71	69

Notes to the Consolidated Financial Statements

14 INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties were valued as at 31 March 2017 and 2016 by independent professionally qualified valuer, Cushman & Wakefield K.K. who holds recognised relevant professional qualifications and has 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 2017 is ¥803 million (2016: ¥763 million). No impairment loss was recognised.

Notes to the Consolidated Financial Statements

15 INTANGIBLE ASSETS

	Goodwill ¥ million	Computer software ¥ million	Total ¥ million
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 1 April 2016			
Cost	104	608	712
Accumulated amortisation	–	(502)	(502)
Net book amount	104	106	210
Year ended 31 March 2017			
Opening net book amount	104	106	210
Additions	–	5	5
Amortisation (Note 7)	–	(33)	(33)
Closing net book amount	104	78	182
At 31 March 2017			
Cost	104	506	610
Accumulated amortisation	–	(428)	(428)
Net book amount	104	78	182

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 ¥33 million (2016: ¥37 million) has been charged in “hall operating expenses” for the year ended 31 March 2017.

Notes to the Consolidated Financial Statements

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 2017 and 2016. As a result, no impairment loss was charged during the years ended 31 March 2017 and 2016.

16 FINANCIAL INSTRUMENTS BY CATEGORY

	2017 ¥ million	2016 ¥ million
Financial assets		
Financial assets at fair value		
Fair value through profit or loss	104	206
Fair value through other comprehensive income	1,210	1,013
	1,314	1,219
Financial assets at amortised cost		
Trade receivables	88	64
Deposits and other receivables	3,159	3,208
Cash and bank balances	13,691	12,792
	16,938	16,064
	18,252	17,283
Financial liabilities		
Financial liabilities at fair value		
Derivative financial instruments	12	16
Other financial liabilities at amortised cost		
Trade payables	123	132
Other payables	3,540	3,728
Borrowings	11,050	13,027
Obligations under finance leases	5,208	6,600
	19,921	23,487
	19,933	23,503

Notes to the Consolidated Financial Statements

17 FINANCIAL ASSETS AT FAIR VALUE

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

	2017 ¥ million	2016 ¥ million
Debt securities	–	100
Unlisted securities	104	106
	104	206
Less: non-current portion	(104)	(106)
	–	100

Change in fair value of financial assets at fair value through profit or loss are recorded in “other losses, 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

	2017 ¥ million	2016 ¥ million
Listed securities		
— Equity securities	1,080	883
Unlisted securities		
— Equity securities	130	130
	1,210	1,013

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

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

Notes to the Consolidated Financial Statements

18 DERIVATIVE FINANCIAL INSTRUMENTS

	2017 ¥ million	2016 ¥ million
Interest rate swaps	12	16
Less: non-current portion	(11)	(14)
	<hr/>	<hr/>
Current portion	1	2

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 2017, the notional amount of the outstanding interest rate swaps agreement with the banks amounted to ¥1,200 million (2016: ¥2,400 million).

19 INVENTORIES

	2017 ¥ million	2016 ¥ million
Supplies	20	413

The cost of inventories recognised as expenses and included in "hall operating expenses" amounted to ¥8,836 million (2016: ¥9,619 million) and "administration and other operating expenses" amounted to ¥1 million (2016: ¥1 million) for the year ended 31 March 2016.

20 TRADE RECEIVABLES

	2017 ¥ million	2016 ¥ million
Trade receivables	88	64
Less: provision for impairment of trade receivables	-	-
	<hr/>	<hr/>
	88	64

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

Notes to the Consolidated Financial Statements

20 TRADE RECEIVABLES (CONTINUED)

As at 31 March 2017 and 2016, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	2017 ¥ million	2016 ¥ million
Less than 30 days	88	64

As at 31 March 2017 and 2016, no trade receivables was past due or impaired.

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 2017 and 2016; and are denominated in Japanese Yen.

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 ¥ million	2016 ¥ million
Non-current portion		
Rental and other deposits	2,586	2,748
Rental prepayments	1,173	1,298
Loans to other employees	1	1
Other prepayments and receivables	106	151
	3,866	4,198
Current portion		
Prepayment for prizes in operation for pachinko and pachislot halls	500	604
Rental prepayments	363	448
Loans to other employees	1	1
Deposit for acquisition of a restaurant (Note)	149	–
Other prepayments and receivables	444	403
	1,457	1,456

The carrying amounts of prepayment, deposits and other receivables approximate their fair values as at 31 March 2017 and 2016; and are denominated in Japanese Yen.

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

Note: On 19 May 2016, the Company entered into the sales and purchase agreement (the "Agreement") with Coastal Heritage Limited (the "Seller") to purchase 66.7% of equity interest in Nha Trang Holdings Limited, a company engaged in Vietnamese and pinot duck restaurants operation, at an aggregate consideration of HK\$100 million. During the year ended 31 March 2017, the Group paid a deposit of HK\$10 million (equivalent to approximately ¥149 million) to the Seller. Pursuant to the announcement dated 15 June 2016, the Group terminated the Agreement with the Seller. As at 31 March 2017, the Group engaged an external lawyer and is undergoing legal process of claiming the full amount of the deposit.

Notes to the Consolidated Financial Statements

22 CASH AND BANK BALANCES

	2017 ¥ million	2016 ¥ million
Non-current portion		
Bank deposits with maturity over 1 year	35	185
Current portion		
Cash on hand	911	909
Cash at banks	11,397	10,194
Short term bank deposits	1,096	1,207
Cash and cash equivalents	13,404	12,310
Bank deposits with maturity over 3 months	252	297
	13,656	12,607
Total cash and bank balances	13,691	12,792

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

	2017 ¥ million	2016 ¥ million
Japanese Yen	12,641	12,309
United States dollar	345	325
Hong Kong dollar	705	158
	13,691	12,792

Notes to the Consolidated Financial Statements

23 SHARE CAPITAL

	Number of shares	Share Capital ¥ million
Ordinary shares, issued and fully paid:		
Opening balance 1 April 2015	895,850,460	10
Issue of new shares (Note)	300,000,000	2,990
<hr/>		
At 31 March 2016, 1 April 2016 and 31 March 2017	1,195,850,460	3,000

Note

In connection with the Company's initial public offering on 8 April 2015, 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.

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.

(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 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.

Notes to the Consolidated Financial Statements

25 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 31 March 2017 and 2016 were as follows:

	2017 ¥ million	2016 ¥ million
Less than 30 days	42	49
31 – 90 days	81	83
	123	132

The carrying amounts of trade payables approximate their fair values as at 31 March 2017 and 2016; and are denominated in Japanese Yen.

26 ACCRUALS, PROVISIONS AND OTHER PAYABLES

	2017 ¥ million	2016 ¥ million
Non-current portion		
Provision for reinstatement costs	1,868	1,932
Provision for long service payment	38	32
Vending machine rental deposit and rental receipt in advance	72	78
Other payables	11	15
	1,989	2,057
Current portion		
Accrued purchases for pachinko and pachislot machines	366	654
Accrued purchases for property, plant and equipment	128	11
Accrued staff costs	823	807
Vending machine rental receipt in advance	125	203
Unutilised balls and tokens	721	628
Other tax payable	718	415
Office expenses and consumables	494	497
Utilities payable	82	83
Other payables	75	28
	3,532	3,326

The carrying amounts of other payables approximate their fair values as at 31 March 2017 and 2016; and are denominated in Japanese Yen.

Notes to the Consolidated Financial Statements

27 BORROWINGS

	2017 ¥ million	2016 ¥ million
Non-current portion		
Bank loans	1,922	1,945
Syndicated loans	6,734	7,787
	8,656	9,732
Current portion		
Bank loans	939	1,682
Syndicated loans	1,455	1,336
Bonds	–	277
	2,394	3,295
Total borrowings	11,050	13,027

As at 31 March 2017 and 2016, the Group's borrowings were repayable as follows:

	2017 ¥ million	2016 ¥ million
Within 1 year	2,394	3,295
Between 1 and 2 years	1,944	2,178
Between 2 and 5 years	4,560	4,933
Over 5 years	2,152	2,621
	11,050	13,027

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

	2017	2016
Bank loans	1.8%	2.3%
Syndicated loans	1.1%	1.1%
Bonds	–	2.3%

Notes to the Consolidated Financial Statements

27 BORROWINGS (CONTINUED)

As at 31 March 2017, the borrowings under sales and leaseback arrangements with a third party lessor amounted to ¥1,472 million (2016: ¥2,275 million). These sales and leaseback arrangements included sell of certain leasehold improvements and pachislot machines at an aggregate consideration of ¥2,801 million and lease-back to the Group for a total lease payment of ¥2,979 million covering the periods ranged between 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 improvements, 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:

	2017 ¥ million	2016 ¥ million
Property, plant and equipment	8,195	8,445
Investment properties	678	697
Deposits and other receivables	585	560
	9,458	9,702

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

	2017 ¥ million	2016 ¥ million
Floating rate		
— Expiring over 1 year	2,000	1,400

The carrying amounts of borrowings of the Group approximate their fair values as at 31 March 2017 and 2016.

During the years ended 31 March 2017 and 2016, 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 i)	160	0.70%	26 August 2022
30 November 2012 (Note i)	100	0.60%	30 November 2022
28 August 2014 (Note ii)	280	0.31%	26 August 2016
19 September 2014 (Note i)	100	1.00%	19 September 2019

Notes:

- i. As at 31 March 2016, these bonds had been fully repaid by the Group.
- ii. As at 31 March 2017, this bond had been fully repaid by the Group.

Notes to the Consolidated Financial Statements

28 OBLIGATIONS UNDER FINANCE LEASES

	2017 ¥ million	2016 ¥ million
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	1,364	1,784
Later than 1 year and no later than 2 years	999	1,336
Later than 2 year and no later than 5 years	1,709	2,271
Later than 5 years	2,264	2,579
	6,336	7,970
Future finance charges on finance leases	(1,128)	(1,370)
	5,208	6,600

The present values of finance lease liabilities are as follows:

	2017 ¥ million	2016 ¥ million
No later than 1 year	1,160	1,530
Later than 1 year and no later than 2 years	835	1,135
Later than 2 year and no later than 5 years	1,371	1,867
Later than 5 years	1,842	2,068
	5,208	6,600
Total obligations under finance leases	5,208	6,600
Less: Amount included in current liabilities	(1,160)	(1,530)
	4,048	5,070

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 2017 (2016: 3.22% to 4.42% per annum). No arrangements have been entered into for contingent rental payments during the reporting periods.

Notes to the Consolidated Financial Statements

29 DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	2017 ¥ million	2016 ¥ million
Deferred income tax assets		
— to be recovered after more than 12 months	1,024	1,738
— to be recovered within 12 months	1,897	1,249
	2,921	2,987
Deferred income tax liabilities		
— to be recovered after more than 12 months	(1,265)	(1,206)
Deferred income tax assets, net	1,656	1,781

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

	2017 ¥ million	2016 ¥ million
At 1 April	1,781	1,771
(Charged)/credit to the consolidated statement of other comprehensive income	(59)	160
Charged to profit or loss	(66)	(150)
Deferred income tax assets	1,656	1,781

Notes to the Consolidated Financial Statements

29 DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax assets and liabilities during the years ended 31 March 2017 and 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

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 2015	1,808	512	31	819	3,170
Credited/(charged) to profit or loss	74	(66)	(19)	(172)	(183)
Balances at 31 March 2016 and 1 April 2016	1,882	446	12	647	2,987
(Charged)/credited to profit or loss	(25)	48	1	(90)	(66)
Balance at 31 March 2017	1,857	494	13	557	2,921

Deferred income tax liabilities

	Property, plant and equipment ¥ million	Fair value through other comprehensive income ¥ million	Total ¥ million
Balance at 1 April 2015	(1,220)	(179)	(1,399)
Credited to other comprehensive income	–	160	160
Credited to profit or loss	33	–	33
Balances at 31 March 2016 and 1 April 2016	(1,187)	(19)	(1,206)
Charged to other comprehensive income	–	(59)	(59)
Balance at 31 March 2017	(1,187)	(78)	1,265

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. As at 31 March 2017 and 2016, the Group did not have any unrecognised tax losses. 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 2017 and 2016.

Notes to the Consolidated Financial Statements

30 DIVIDENDS

During the year ended 31 March 2017, the Company paid final dividend of ¥120 million (¥0.10 per ordinary share) and interim dividend of ¥108 million (¥0.09 per ordinary share) to their shareholders in respect of the years ended 31 March 2016 and 31 March 2017, respectively.

The board of directors of the Company proposes the payment of a final dividend of ¥0.03 per ordinary share totalling ¥36 million in respect of the year ended 31 March 2017. These consolidated financial statements do not reflect this dividend payable.

31 CASH GENERATED FROM OPERATIONS

	2017 ¥ million	2016 ¥ million
Profit before income tax	902	633
Adjustments for:		
Depreciation of property, plant and equipment	2,368	2,387
Depreciation of investment properties	19	27
Amortisation of intangible assets	33	37
Loss on disposal of property, plant and equipment	64	57
Write off of property plant and equipment	14	–
Impairment loss of property, plant and equipment	271	317
Write off of other receivables	17	–
Finance costs, net	531	838
Dividend income	(61)	(64)
(Gain)/loss on fair value for derivative financial instruments	(4)	16
Loss/(gain) on fair value for financial assets at fair value through profit or loss	2	(6)
Changes in working capital:		
Inventories	393	139
Trade receivables	(24)	(12)
Prepayments, deposits and other receivables	656	580
Trade payables	(9)	26
Accruals, provisions and other payables	85	(260)
Cash generated from operations	5,257	4,715

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:

	2017 ¥ million	2016 ¥ million
Net book amount	64	57
Loss on disposal of property, plant and equipment	(64)	(57)
<hr/>		
Proceeds from disposal of property, plant and equipment	–	–

Major non-cash transactions:

For the year ended 31 March 2017, certain finance lease obligations amounting to ¥141 million (2016: ¥160 million) were settled through reduction of rental prepayments.

For the year ended 31 March 2017, certain property, plant and equipment amounting to ¥122 million (2016: ¥Nil million) were settled through finance lease obligations.

32 CONTINGENCIES

As at 31 March 2017, the Group did not have any significant contingent liabilities (2016: Same).

33 COMMITMENTS

(a) Capital commitments

The outstanding commitments not provided for in the consolidated financial statements as at 31 March 2017 and 2016 are as follows:

	2017 ¥ million	2016 ¥ million
Contracted but not provided for		
Purchase of property, plant and equipment	20	40

Notes to the Consolidated Financial Statements

33 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

(i) As a lessee

As at 31 March 2017, 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:

	2017 ¥ million	2016 ¥ million
No later than one year	1,058	1,083
Later than one year and no later than five years	3,569	3,771
Over five years	5,150	6,016
	9,777	10,870

(ii) As a lessor

As at 31 March 2017 and 2016, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	2017 ¥ million	2016 ¥ million
No later than one year	40	38

Notes to the Consolidated Financial Statements

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.

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 years ended 31 March 2017 and 2016:

	2017 ¥ million	2016 ¥ million
Service fee expenses		
Niraku USA, Inc.	35	33

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 the United States of America. 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:

	2017 ¥ million	2016 ¥ million
Directors' fees	194	192
Basic salaries, allowances and other benefits in kind	–	–
Employee's contribution to pension scheme	3	3
	197	195

Notes to the Consolidated Financial Statements

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	At 31 March	
		2017 ¥ million	2016 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment		4	4
Intangible assets		18	23
Deposits and other receivables		6	7
Loans to subsidiaries		4,782	5,927
Investments in subsidiaries		16,286	16,286
Deferred income tax assets		15	188
		21,111	22,435
Current assets			
Prepayments, deposits and other receivables		250	16
Loans to subsidiaries		1,145	1,145
Bank deposits with maturity over 3 months		470	536
Cash and cash equivalents		4,012	3,126
Current income tax recoverable		610	847
		6,487	5,670
Total assets		27,598	28,105
EQUITY			
Share capital		3,000	3,000
Reserves	(a)	17,066	16,182
Total equity		20,066	19,182
LIABILITIES			
Non-current liabilities			
Borrowings		6,153	7,275
Other payables		7	9
Derivative financial instruments		11	14
		6,171	7,298
Current liabilities			
Borrowings		1,335	1,289
Other payables		25	299
Derivative financial instruments		1	2
Current income tax liabilities		–	35
		1,361	1,625
Total liabilities		7,532	8,923
Total equity and liabilities		27,598	28,105

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 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)
Balance at 31 March 2016 and 1 April 2016	3,000	13,954	2,228	19,182
Profit for the year	–	–	1,112	1,112
Final dividend related to 2016	–	–	(120)	(120)
Interim dividend related to 2017	–	–	(108)	(108)
Balances at 31 March 2017	3,000	13,954	3,112	20,066

36 BENEFITS AND INTERESTS OF DIRECTORS

(a) 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 2017 and 2016 is set out below:

For the year ended 31 March 2017

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
Non-executive directors				
Hiroshi Bannai	3	–	–	3
Independent non-executive directors				
Hiroaki Morita	4	–	–	4
Norio Nakayama	4	–	–	4
Masaharu Togo	4	–	–	4
Michio Minakata (Note a)	5	–	–	5
Yoshihiro Koizumi (Note a)	3	–	–	3
Hiroaki Kumamoto (Note b)	2	–	–	2
	125	–	1	126

Note a: Mr. Michio Minakata and Mr. Yoshihiro Koizumi were appointed as independent non-executive directors on 29 May 2016.

Note b: Mr. Hiroaki Kumamoto resigned as an independent non-executive director on 30 June 2016.

Notes to the Consolidated Financial Statements

36 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors and chief executive's emoluments (Continued)

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

* 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 2017 and 2016.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 March 2017 and 2016.

During the year ended 31 March 2017, the Group does not pay consideration to any third parties for making available directors' services (2016: Nil).

As at 31 March 2017, there is no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and connected entities with such directors (2016: Nil).

Save as disclosed in Note 34, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).

