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

2019
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, together with its subsidiaries, the "Group") is a leading pachinko hall operator in Fukushima Prefecture in Japan, and has over 60 years of pachinko hall operation experience. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 April 2015 (the "Listing Date").

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

NIRAKU has a strong pachinko hall network with 53 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.

Corporate Information and Information for Investors

CORPORATE INFORMATION

Executive Director	Mr. Hisanori TANIGUCHI *(Chairman)* (formerly known as Mr. JEONG Seonggi)
Non-Executive Director	Mr. Hiroshi BANNAI
Independent Non-Executive Directors	Mr. Hiroaki MORITA Mr. Michio MINAKATA Mr. Yoshihiro KOIZUMI
Audit Committee	Mr. Michio MINAKATA *(Committee Chairman)* Mr. Hiroaki MORITA Mr. Hiroshi BANNAI
Remuneration Committee	Mr. Hiroaki MORITA *(Committee Chairman)* Mr. Yoshihiro KOIZUMI Mr. Hisanori TANIGUCHI
Nomination Committee	Mr. Hisanori TANIGUCHI *(Committee Chairman)* Mr. Michio MINAKATA Mr. Yoshihiro KOIZUMI

INFORMATION FOR INVESTORS

Principal Bankers	Mizuho Bank, Ltd. Sumitomo Mitsui Bank Corporation The Toho Bank, Ltd.
Auditor	PricewaterhouseCoopers
Compliance Adviser	Shenwan Hongyuan Capital (H.K.) Limited
Legal Adviser	Deacons
Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Principal Place of Business in Hong Kong	805B, 8/F, Tsim Sha Tsui Centre 66 Mody Road, Tsim Sha Tsui Kowloon, Hong Kong
Headquarter in Japan and Registered Office	1-1-39 Hohaccho Koriyama-shi, Fukushima, Japan 963-8811
Stock Code	1245
Investor and Media Relations Consultant	Strategic Financial Relations Limited
Website	www.ngch.co.jp
Investor Relation Inquiry	e-mail: niraku@sprg.com.hk

Financial and Operational Highlights

The following table summarises the results of the Group for the financial years ended 31 March 2019, 2018, 2017, 2016 and 2015.

	For the year ended 31 March						
	2019		2018		2017	2016	2015
	¥ million	HK$ million	¥ million	HK$ million	¥ million	¥ million	¥ million
Gross pay-ins	**141,731**	**10,023**	138,493	10,229	143,130	175,592	175,592
Gross pay-outs	**(115,850)**	**(8,193)**	(113,230)	(8,363)	(114,734)	(143,473)	(143,473)
Revenue from pachinko and pachislot business	**25,881**	**1,830**	25,263	1,866	28,396	32,119	32,119
Revenue from amusement arcade business	**1,535**	**109**	417	31	N/A	N/A	N/A
Other revenue	**909**	**64**	874	65	784	767	767
Revenue	**28,325**	**2,003**	26,554	1,961	29,180	32,886	32,886
Hall operating expenses	**(22,875)**	**(1,618)**	(22,640)	(1,672)	(24,110)	(22,982)	(22,982)
Administrative and other operating expenses	**(4,502)**	**(318)**	(3,918)	(289)	(4,391)	(5,336)	(5,336)
Profit before income tax	**1,093**	**77**	213	16	902	4,994	4,994
Profit/(loss) attributable to the shareholders of the Company	**610**	**43**	(15)	(1)	492	3,030	3,030
Earnings/(loss) per share (expressed in Japanese Yen or Hong Kong dollar)	**0.510**	**0.036**	(0.013)	(0.001)	0.41	3.38	3.38
Overall revenue margin	**18.3%**	**–**	18.2%	–	19.8%	18.3%	18.3%
Net profit/(loss) margin	**1.9%**	**–**	(0.2%)	–	1.7%	9.2%	9.2%

Financial and Operational Highlights

	As at 31 March						
	2019		2018		2017	2016	2015
	¥ million	**HK$ million**	¥ million	HK$ million	¥ million	¥ million	¥ million
Current assets	**16,401**	**1,160**	17,363	1,282	15,276	14,734	14,734
Current liabilities	**9,770**	**691**	8,815	651	7,210	11,120	11,120
Net current assets	**6,631**	**469**	8,548	631	8,066	3,614	3,614
Total assets	**54,043**	**3,822**	52,171	3,853	49,413	50,977	50,977
Total assets less current liabilities	**44,273**	**3,131**	43,356	3,202	42,203	39,857	39,857
Gearing ratio	**70.9%**	**–**	69.6%	–	59.1%	92.4%	92.4%

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. ¥14.14 to HK$1.00, the exchange rate prevailing on 29 March 2019 (i.e. the last business day in March 2019);

2. ¥13.54 to HK$1.00, the exchange rate prevailing on 29 March 2018 (i.e. the last business day in March 2018).

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

Chairman's Statement

OUR BUSINESS ACTIVITIES AND VISION

In this financial year, with the implementation of strategic sales plan and overhaul of the corporate structure, our core pachinko and pachislot business recorded a strong improvement. Despite the market downturn, our revenue was maintained and operating income was substantially improved.

Apart from our domestic business, we also endeavour to expand our overseas markets. During the year, we opened an amusement arcade in Cambodia under our wholly-owned subsidiary, Dream Games. Besides, we also stepped into the eSports business via investing in a Hong Kong established private company named Yes! E-Sports Asia Holdings Limited ("YEAH") which its main focus is in the Pan-Asian region. Soon in June this year, we will commence a food and beverage business in Shenzhen, the Shenzhen Upper Hills YOKOCHO Japanese food court (the "Shenzhen Upper Hills YOKOCHO"), which the idea is inspired by the concept of "Yokocho" alleyway.

In Southeast Asian countries with fast-growing economies where citizens have more disposal income and leisure time, expansion of leisure and entertainment market is foreseen. This will lead to the emergence of mature societies and markets in the near future, which Japan had once experienced. In addition, Shenzhen is one of the major cities in China, which its vibrant economy and rapid growing of intellectual technology has attracted more foreign investment. We are confident that we can convey the excellence and pleasure of Japanese gastronomy, culture, and service to the global audience.

The Group strives to expand its business with a focus on Asia as a whole, by providing places for people to gather and enjoy as well as places for communities where people can interact with each other. To that end, in the medium term, we aim to expand our entertainment business in a broad sense, encompassing the amusement business, the food and beverage business, and our mainstay pachinko hall business, both in Japan and across the Asian region.

"Providing happy time for people by making the world cheerful, fun and entertaining" — this philosophy not only applies to our core pachinko hall business, but is also a shared philosophy for the business portfolio of the entire Group. Moreover, this philosophy is not limited to a specific country or region, but has universal meaning. With an eye to the future, we will accelerate the pace of our own globalisation and build a robust and future-oriented foundation for business.

Chairman's Statement

Pachinko business

The pachinko industry remains difficult with markets shrinking across the entire industry, more pachinko hall operators are experiencing management difficulties and a trend toward closing of pachinko halls. It is believed that this declining trend will continue for the time being, with no immediate solutions to resolve market-wide issues such as unveil new markets of younger people and prevent departure of existing players.

Furthermore, in the future, the pachinko industry will likely be confronted with other issues further constraining its profitability, such as change of gambling property for gaming machine due to the revision of gaming machine regulations, the increase in consumption tax, and measures to protect against gambling dependency following the lifting of casino restrictions, among others.

Given this industry environment, for our pachinko hall business we have further promoted the implementation of sales policies necessary for achieving continuous profitable growth and cost efficiency, in compliance with various regulations, while at the same time striving to provide a gaming environment that meets the needs of diverse fans as an important sales strategy. As a result, despite the ongoing severity of the situation the pachinko industry as a whole is facing — such as the market shift following changes of machine standards regulations and the decrease in sales (gross pay-in) that has accompanied this shift — we have successfully maintained our sales scale and have achieved an expansion of customer visits.

Despite the macro environment of pachinko industry is seen to be severe, we regard this market phenomenon as an opportunity for our future growth, we will focus on areas with existing pachinko halls where we can demonstrate our strengths. We intend to establish a foundation for future growth through opening of new halls seeking opportunity for acquisitions of other halls and allying with business partners.

Apart from continuously configurate products to accommodate the characteristics of each region, improve the gaming environment and customer service, we will also work to enhance our overall organisation by implementing cost efficiency plan and work in unity to create halls that win the support of customers.

Amusement arcade business (Dream Games)

Dream Games is currently operating gaming arcades in Vietnam and Cambodia, which are extremely fast-growing countries with high potential and young people which is an advantage to leisure and entertainment business.

Operating mainly in shopping malls with strong ability to attract customers, including Aeon Mall, Dream Games currently operates a total of nine outlets, of which seven are in Vietnam and two in Cambodia. Vietnam and Cambodia are undergoing rapid economic expansion, both the average age and the overall proportion of young people are on an increasing trend, while facilities designed for people to enjoy leisure time are still limited, and it is expected that use of amusement facilities will further expand within the leisure market.

In addition, this amusement arcade business is extremely compatible with the pachinko hall business we have cultivated over the years. Through this acquisition, we have succeeded in enhancing synergy for the Group including human resources efficiency. We plan to further invest in management resources, to achieve further business growth in the future.

We will continue to open new outlets in Vietnam and Cambodia with an aim to increase our market share while also developing various modes of business. At the same time, we will fix our gaze on other Southeast Asian markets and plan to develop a wide variety of amusement businesses across Asia in the future. By accurately grasping the economic growth of Asian countries, the accompanying expansion of leisure market, and their needs, we plan to actively invest in business expansion and promote growth as one of our mainstays for group profit in the medium term.

Chairman's Statement

Overseas restaurant business (Yokocho business)

In mid 2019, we will open the Shenzhen Upper Hills YOKOCHO which is located inside an urban complex centre named Shenzhen Upper Hills.

The Shenzhen Upper Hills development has a total area of 1.2 million square meters, a large-scale urban complex comprising commercial facilities, offices, hotels, conference halls, residential areas, with an excellent location near the center of Shenzhen. Directly connected to two public parks, it has an abundant natural environment and is linked to the subway by a dedicated thoroughfare, and with its ability to draw customers, it is expected to benefit not only from domestic Chinese demand but also large inbound demand.

The Shenzhen Upper Hills YOKOCHO will comprise a food court of approximately 3,000 square meters in area, with the participation of 16 diversified well-known Japanese restaurants, cafés, and sake bars. By fusing and coordinating these various aspects in a cross-cutting and innovative manner, we are confident that we can mutually enhance the overall value of this business.

Through Shenzhen Upper Hills YOKOCHO, our Group intends to convey the excellence and pleasure of Japanese gastronomy, culture, and service to a global audience, starting from Shenzhen, a city of discerning tastes.

Domestic food business

In the domestic restaurant business, as a franchisee of the "Lizarran" Spanish restaurant, developed by the Spain-based Comess Group, which principally operates restaurants in Europe, we are currently operating three restaurants in three locations — Shinbashi, Nishi-Shinjuku and Takadanobaba, where our newly opened restaurant is.

The "Lizarran" brand, developed by the Comess Group of Spain, is a brand that is full of fun — not only serving food but also offering an entertaining style of service.

We are confident that moving ahead, in developing a larger number of restaurants, we will be able to fully utilize all of the efficient store operation, service, and quality maintenance and management systems we have cultivated through our pachinko business. We plan to continue expanding these restaurants in Japan's major urban areas.

eSports business

Seeing the potential growth in eSports business, in November 2018, we stepped in the eSports business through investment in a 40% equity interest in YEAH.

Recent statistic has shown that global eSports market revenue will reach USD1.79 billion by 2022, with annual growth rate of nearly 30%, particularly in the Pan-Asian region, and the size of the market is expected to keep growing in the future. With YEAH, we will build strong business networks with strategic partners in each country, making full use of the business know-how possessed by each partner, and through this unique "eSports + entertainment" platform, we plan to provide new entertainment with a focus on China (including Hong Kong and Macao), Taiwan, Japan, South Korea, Singapore, Malaysia, Thailand, and Vietnam, among others.

Chairman's Statement

STRATEGIES AND FUTURE DEVELOPMENT

Management strategy

This year, the Group formulated its medium-term management strategy to build a robust foundation for becoming the No. 1 "total entertainment company" in Asia in the future.

As part of this management strategy, we will make bold strategic investments in the domestic Japanese amusement industry, centering on the pachinko hall business, with the construction of a solid business foundation in Japan a top priority. At the same time, by further promoting our own globalisation, we will focus on solidifying the business foundation of each overseas business with the intention of securing a stable foundation for earnings and growth trajectory. Through this, we will establish a foundation for our Group's survival as a "hundred-year company".

The outline of our management strategy is as follows:

1. *Invest management resources in domestic Japanese amusement business*
   We will continue to position the establishment of a solid business foundation as our most important management issue by actively and intensively investing management resources in the domestic business, centered on the pachinko business.

2. *Build a base for overseas business as a profitable business*
   With regard to our overseas businesses (overseas arcade game business, overseas food service business, overseas entertainment business) centered on the rapidly growing Asian region, as we aim to become the No. 1 "total entertainment company" in Asia, we will build a solid foundation for profitable businesses that are stable and have growth potential.

3. *Strengthen head office functions to facilitate management of the Group as it expands*
   By strengthening the functions of the head office, we aim to improve the corporate value of the Group by establishing a business foundation of each Group operating company, establishing a stable earnings structure, and promoting corporate governance.

By firmly implementing the medium-term business strategy above, we are confident that we can weather the severe business environment that we anticipate, strengthen our structural business base for the future, and create systems for further growth.

By making people's lives more "cheerful, fun, and entertaining", our next goal is to welcome the 100th anniversary in better shape, in light of many opinions from our customers. To that end, we aim to expand our businesses not only in Japan but also across the entire Group, increase corporate value, and maintain better relationships with our stakeholders, including our employees, and to grow together.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue from Pachinko and Pachislot Business

Revenue from pachinko and pachislot is derived from gross pay-in netted with gross pay-out.

Revenue from pachinko and pachislot business recorded an increase of ¥618 million, or 2.4%, from ¥25,263 million for in 2018 to ¥25,881 million in 2019. The rise was attributable to the full year effect of revenue generated from a new hall which was opened in December 2017 as well as general improvement in hall performance despite the slump in pachinko industry.

Gross pay-ins

For the year ended 31 March 2019, the Group's gross pay-ins from pachinko and pachislot business amounted to ¥141,731 million, comprising revenue from suburban halls of ¥135,064 million (2018: ¥131,811 million) and urban halls of ¥6,667 million (2018: ¥6,682 million), representing an increase of ¥3,253 million, or 2.5%, and slight drop of ¥15 million, or 0.2%, respectively, as compared to last year. The overall increase was mainly generated from Hitachi-Omiya hall which was opened in late December 2017.

Gross pay-out

Gross pay-out increased from ¥113,230 million in 2018 to ¥115,850 million in 2019, an increase of ¥2,620 million, or 2.3%, generally mirrored the increase in gross pay-ins.

Revenue margin

The revenue margin in current year maintained at similar level as that of last year, with an immaterial increase of 0.1% from 18.2% in 2018 to 18.3% in 2019.

Revenue from Amusement Arcade Business

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

For the year ended 31 March 2019, the revenue contributed from amusement arcade business amounted to ¥1,535 million (2018: ¥417 million), of which ¥1,274 million (2018: ¥349 million) and ¥261 million (2018: ¥68 million) were derived from Vietnam and Cambodia, respectively. Apart from the improvement in the performance of amusement arcade business, the surge of revenue is mainly due to the full year effect of consolidated revenue in current year, while the amount in last year represented 4 months' revenue subsequent to acquisition of Dream Games.

Other revenue

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

Vending machines income amounted to ¥507 million in 2019. The decrease of ¥29 million as compared to ¥536 million in 2018 was resulted from decrease in number of vending machines.

Revenue from hotel operations decreased from ¥158 million in 2018 to ¥132 million in 2019 as a result of decrease in average occupancy rate from 75.7% in 2018 to 62.9% in 2019 due to increasing competition in the vicinity.

Revenue from restaurant increased from ¥180 million in 2018 to ¥270 million in 2019. The hike was due to (i) full year effect of Shinbashi restaurant which was opened in August 2017 netted with closure of restaurant in Akasakamitsue in late February 2018; (ii) increase in revenue from restaurant in Nishishibashi by ¥17 million as compared to prior year; and (iii) opening of Komeda Café in two pachinko halls which generated additional income of ¥80 million.

Management Discussion and Analysis

Hall operating expenses

Hall operating expenses rose by ¥235 million, or 1.0%, from ¥22,640 million in 2018 to ¥22,875 million in current year. Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and rental expenses, amounting to ¥6,971 million, ¥5,510 million and ¥2,902 million, respectively, in 2019 (2018: ¥7,699 million, ¥5,176 million and ¥2,728 million, respectively). The slight increase in hall operating expenses is mainly resulted from the full year hall expenses of Dream Game netted with plunge in pachinko and pachislot machine expenses.

Administrative and other operating expenses

Administrative and other operating expenses decreased by ¥584 million, or 14.9%, from ¥3,918 million in 2018 to ¥4,502 million in 2019, primarily due to the full year results of Dream Game business and provision of impairment loss of ¥195 million made in current year but nil in previous year; netted with continuous implementation of cost savings measures.

Finance costs, net

Finance costs, net declined by ¥55 million, or 10.8%, from ¥510 million in 2018 to ¥455 million in 2019. The drop was attributable to the centralisation of borrowings from individual subsidiaries level to the Company, allowing higher cost savings on borrowings.

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

Profit attributable to owners of the Company of ¥610 million was recorded for the year ended 31 March 2019, as compared to the loss attributable to owners of ¥15 million in 2018. The turnaround from loss to profit was mainly attributable to additional revenue driven from the new pachinko hall and Dream Games business, general improvement in hall performance, together with the decline in machine expenses.

Basic earnings per share was ¥0.510 (basic loss per share in 2018: ¥0.013). The Board has declared a final dividend of ¥0.07 (or HK$0.005) per common share for the year ended 31 March 2019 (2018: ¥0.12 per common share) on 24 May 2019.

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 relies 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.

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 2019 and 2018, and operating cash flows before movements in working capital of the Group for the years ended 31 March 2019 and 2018, respectively:

	As at 31 March	
	2019	2018
	¥ million	¥ million
Cash and cash equivalents	**15,176**	15,594
Bank deposits	**43**	90
	15,219	15,684
Bank loans	**4,294**	3,574
Syndicated loans	**11,788**	11,166
Obligations under finance leases	**3,420**	4,135
	19,502	18,875
Working capital	**6,631**	8,548
Total equity	**27,511**	27,136
Gearing ratio	**70.9%**	69.6%

	For the year ended 31 March	
	2019	2018
	¥ million	¥ million
Operating cash flows before movements in working capital	**4,278**	2,925

Net current assets of the Group totalled ¥6,631 million as at 31 March 2019 (31 March 2018: ¥8,548 million), and current ratio was 1.68 as at 31 March 2019 (31 March 2018: 1.97). As at 31 March 2019, there were cash and cash equivalents of ¥15,176 million (31 March 2018: ¥15,594 million), in which ¥14,340 million was denominated in Japanese Yen, ¥445 million was denominated in United States dollar, ¥252 million was denominated in Hong Kong dollar and ¥139 million was denominated in other currencies. The Group had total borrowings of ¥19,502 million as at 31 March 2019 (31 March 2018: ¥18,875 million). Current portion of borrowings and current portion of obligations under finance leases amounted to ¥4,993 million as at 31 March 2019 (31 March 2018: ¥4,774 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 31 March 2019, the total bank borrowings amounted to ¥16,082 million (31 March 2018: ¥14,740 million) with the average effective interest rates ranged from 0.99% to 1.91% (31 March 2018: 0.8% to 1.1%) per annum. Approximately 9.3% of bank borrowings as at 31 March 2019 were fixed rate borrowings.

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

Management Discussion and Analysis

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 31 March 2019, the Group had three floating to fixed interest rate swap contracts with banks in Japan (i.e. the Group pays fixed interest rates and receives interests at floating rate). These interest rate swap contracts were entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the year ended 31 March 2019, the loss on fair value for interest rate swap contracts amounted to ¥23 million.

The Group's debts were primarily denominated in Japanese Yen. After the acquisition of Dream Games, the Group maintains an appropriate level of external borrowings in Vietnam Dong for natural hedging of Vietnam Dong attributed to projects in Vietnam. The Vietnam Dong exposure of the Group is mainly derived from the translation of non-current assets and liabilities of the Vietnam subsidiary with functional currency of Vietnam Dong and the Vietnam Dong deposits held for future development costs. As at 31 March 2019, the translation of non-current assets and liabilities of subsidiaries with functional currency other than Japanese Yen to Japanese Yen by using exchange rates at that day resulted in a gain of ¥99 million is recognised in equity. Apart from this, the Group does not have any material foreign exchange exposure.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and obligations under finance leases, divided by total equity, was 70.9% as at 31 March 2019 (31 March 2018: 69.6%). The increase of 1.3% as compared with that as at 31 March 2018 was mainly due to the increase in total borrowings of ¥627 million and total equity of ¥375 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 and amusement arcade operations. The table below shows a breakdown of the capital expenditure for the indicated periods:

	As at 31 March	
	2019 **¥ million**	2018 ¥ million
Property, plant and equipment	**5,084**	1,915
Investment properties	**14**	3
Intangible assets	**83**	–
Others	**–**	1
	5,181	1,919

Management Discussion and Analysis

CHARGES ON ASSETS

As at 31 March 2019 and 2018, the carrying values of charged assets were as below:

	2019 **¥ million**	2018 ¥ million
Property, plant and equipment	**11,050**	8,340
Investment properties	**650**	662
Deposits and other receivables	**180**	582
	11,880	9,584

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2019 and 2018.

CAPITAL COMMITMENTS

Details of the Group's capital commitments as at 31 March 2019 and 2018 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

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 2019, the Group had 1,846 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 37 to the consolidated financial statements.

FINAL DIVIDEND

The Board has declared a final dividend of ¥0.07 per common share for the year ended 31 March 2019 (31 March 2018: ¥0.12 per common share) on 24 May 2019, the final dividend will be payable on 11 July 2019 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company at close of business on 11 June 2019.

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 24 May 2019 (being 17 May 2019 and 20 to 23 May 2019).

Corporate Governance Report

CORPORATE GOVERNANCE

During the year ended 31 March 2019, the Company has adopted and complied with all the applicable principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), with the exception for code provision A.2.1, which requires the roles of chairman and chief executive to be separated and should be performed by different individuals, and code provision E.1.3, which requires that notice for an annual general meeting should be sent to the shareholders at least 20 clear business days before the meeting.

Code provision A.2.1

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Chairman currently holds both positions. Since April 2010, our Chairman has been the key 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 (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.

Code provision E.1.3

Code provision E.1.3 stipulates that notice for an annual general meeting (the "AGM") should be sent to its shareholders by the issuer at least 20 clear business days before the meeting. The AGM of the Company for the year ended 31 March 2018 was held on 28 June 2018 ("2018 AGM"), while the notice for the 2018 AGM was despatched on 7 June 2018. The above arrangement complied with the articles of incorporation of the Company (the "Articles of Incorporation") prepared pursuant to the Companies Act in respect of the minimum notice period of 21 calendar days for AGM but the notice period for the 2018 AGM was less than 20 clear business days before the 2018 AGM.

Under the Companies Act and the Articles of Incorporation, the Company is required to hold an AGM within three months after the expiration of each financial year (i.e. on or before 30 June 2018 for the financial year ended 31 March 2018).

The Companies Act also requires the notice for the AGM to be despatched together with the audited financial statements under the Japanese Generally Accepted Accounting Principles, which must be approved by the Board. On the other hand, the annual report must contain audited financial statements prepared under the IFRS as required under the Listing Rules. As a result, more time was required to finalise the annual report of the Company for the year ended 31 March 2018 which accompanied the 2018 AGM notice despatched to the Shareholders.

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.

Corporate Governance Report

BOARD OF DIRECTORS

The Board oversees the management, businesses, strategic directions and financial performance of the Group. The Board currently comprises a total of five Directors, with one executive Director, namely Mr. Hisanori TANIGUCHI (formerly known as JEONG Seonggi), one non-executive Director, namely Mr. Hiroshi BANNAI, and three independent non-executive Directors, namely Mr. Hiroaki MORITA, Mr. Michio MINAKATA and Mr. Yoshihiro KOIZUMI.

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 as follows.

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company formulated a Board Diversity Policy which sets out the approach to a diversity of perspectives among members of its Board.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's 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.

Selection of candidates will be based on a range of diversity perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Regarding the Board's current composition, the Board comprises 5 male Directors with different age, length of service and diversity perspectives, which have been disclosed in biographical information shown on pages 24 to 26 in "Profile of Directors and Senior Management". The nomination committee will continuously monitor and review the implementation and operation of this policy and the progress towards achieving the measurable objectives, and also review this policy to ensure its effectiveness from time to time, as appropriate. The nomination committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval. The policy has been published on the Company's website for public information.

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.

Corporate Governance Report

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 2019 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 2019 and interim financial statements for the six months ended 30 September 2018 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 two independent non-executive Directors, namely Mr. Michio MINAKATA (南方美千雄), Mr. Hiroaki MORITA (森田弘昭) and a non-executive Director, namely Mr. Hiroshi BANNAI (坂内弘). It is currently chaired by Mr. Michio MINAKATA (南方美千雄), an independent non-executive Director.

Remuneration Committee

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

The Remuneration Committee currently consists of three members, including two independent non-executive Directors, namely Mr. 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). It is currently chaired by Mr. Hiroaki MORITA (森田弘昭), an independent non-executive Director. The Remuneration Committee held 2 meetings during the year ended 31 March 2019 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 make recommendations to the Board about the remuneration of non-executive Directors.

For the year ended 31 March 2019, 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	8
¥10,000,001 to ¥20,000,000	1
¥20,000,001 to ¥30,000,000	1
¥30,000,001 to ¥100,000,000	2
¥100,000,001 to ¥110,000,000	–

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, overseeing the implementation of board diversity policy, 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 currently consists of three members, including two independent non-executive Directors, namely Mr. Michio MINAKATA (南方美千雄) and Mr. Yoshihiro KOIZUMI (小泉義広), and an executive Director, namely Mr. Hisanori TANIGUCHI (谷口久徳). It is currently chaired by Mr. Hisanori TANIGUCHI (谷口久徳), an executive Director. The Nomination Committee held 5 meetings during the year ended 31 March 2019 to review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board, approve the renewal of the term of appointment for the 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 Director and independent non-executive Directors) have formal service agreements or 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 2018 annual general meeting ("AGM"), six 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 Directors. The Nomination Committee has reviewed the Directors' rotation plan to ensure that every Director will retire by rotation at least once every year at an annual general meeting.

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

	Number of meetings attended/Eligible to attend for year ended 31 March 2019				
Name of Directors	**General Meeting**	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**
Mr. Hisanori TANIGUCHI (谷口久徳)	1/1	16/16	–	2/2	5/5
Mr. Hiroshi BANNAI (坂内弘)	1/1	16/16	14/14	–	–
Mr. Hiroaki MORITA (森田弘昭)	1/1	16/16	14/14	2/2	–
Mr. Norio NAKAYAMA (中山宣男) Note	1/1	8/9	–	2/2	2/3
Mr. Michio MINAKATA (南方美千雄)	1/1	16/16	14/14	–	2/2
Mr. Yoshihiro KOIZUMI (小泉義広)	1/1	16/16	–	0/0	5/5

Note: Mr. Norio NAKAYAMA resigned as the independent non-executive Director on 31 October 2018.

There were 16 meetings of the Board held during the year ended 31 March 2019.

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.

Corporate Governance Report

Induction and Continuous Professional Development

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

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All Directors participated in continuous professional development to develop and refresh their knowledge and skills. The Company's external lawyers had facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a listed company director. Directors including Mr. Hisanori TANIGUCHI, Mr. Hiroshi BANNAI, Mr. Hiroaki MORITA, Mr. Norio NAKAYAMA, 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 to all Directors to study, and they are asked to submit a signed training record to the Company on an annual basis.

Corporate Governance Function

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

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

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

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

(d) to develop and review the Company's policies and practices on corporate governance and to make 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 2019, the total fee in relation to the annual audit of the Group amounted to ¥107 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:

	2019 ¥ million
Types of services	
Statutory audit	100
Non-audit services (Note)	7
Total	107

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

JOINT COMPANY SECRETARY

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

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. NG Sau Mei, associate director of TMF 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.

During the year ended 31 March 2019, 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 its reporting responsibilities on the financial statements of the Company and the Group is set out in the Independent Auditor's Report on pages 37 to 42 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 2019.

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:

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;
- 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 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) (formerly known as Mr. JEONG Seonggi), aged 56, 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 36 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 the representative director* (代表取締役) of Niraku Merrist Corporation ("Merrist").

NON-EXECUTIVE DIRECTOR

Mr. Hiroshi BANNAI (坂内弘), aged 80, had 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 had 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 82, 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. Michio MINAKATA (南方美千雄), aged 52, 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)) and the partner (社員) of Yamato Tax Corporation* (やまと税理士法). 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 First Section of 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 64, 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* (慶応義塾大学商学部). 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.

EXECUTIVE OFFICERS

Mr. Akinori OHISHI (大石明徳), aged 54, 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 53, 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. Mr. Morota's industry positions include the chief director* (理事長) at the Fukushima Prefecture Amusement Business Association* (福島県遊技業協同組合連合会).

Profile of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Tatsuo TANIGUCHI (谷口龍雄), aged 65, 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 (內山忠), aged 67, 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 70, 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 2019.

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, amusement arcade operations, hotel operations and restaurant business in Japan. The principal activities of the subsidiaries are set out in Note 12 to the consolidated financial statements. The operating segment of the Group for the year ended 31 March 2019 is set out in Note 5 to the consolidated financial statements.

BUSINESS OVERVIEW

Having operating pachinko business for over decades, the Group has seen the upturn and downturn of the pachinko industry. In recent years, pachinko business is experiencing its market shrinkage which partly caused by the increase in the variety of entertainment activities in the market, while more on introduction of gaming regulation that reduced the jackpot size to de-emphasize the gaming element of pachinko machines which resulted in drop of popularity of pachinko and pachislot.

With the passage of the “IR Promotion Act” in December 2016 which the establishment of casinos resorts becomes legitimate in Japan, noises on the “gambling addiction problem” were made among the community, and strong calls for the pachinko industry to take initiatives and actions to address the social issues.

For the year ended 31 March 2019, the Group’s revenue from pachinko business amounted to ¥25,881 million (2018: ¥25,263 million) and revenue margin at 18.3% (2018: 18.2%). The rise in revenue by 2.4% with a minor improvement in revenue margin by 0.1% is attributable to the launch of strategic sales management since prior year which has proven to be successful in improving the Group’s revenue and maintaining a stable profit growth.

While focusing on the pachinko sales itself, the Group also seeks to improve the quality of entertainment that players can enjoy during their visit. In the current year, a concept of accommodating a café inside the vicinity of pachinko hall was introduced. “Komeda Café” provides a cosy place for both pachinko and non-pachinko players to enjoy drinks and light meals. As at 31 March 2019, the Group has launched 2 Komeda Café and the Group plans to continue rolling out more café inside the hall vicinity.

Subsequent to the acquisition of Dream Games in previous year, amusement arcade business becomes the second largest revenue stream of the Group which contributed ¥1,535 million revenue, representing 5.4% over the total revenue. In late May 2018, a new arcade was opened in Cambodia which generated revenue of ¥96 million. The Group will continue to expand this business through opening of new arcades in Southeast Asia.

During the year, the Group took several new moves over both restaurant and gaming businesses. In respect of food and beverage business, close to the end of this financial year, a new restaurant under the brand name “LIZARRAN” was opened in Takadanobaba, an area between the commercial districts of Ikebukuro and Shinjuku. Moving to the year 2020, the Group will operate a Japanese food court in Shenzhen Upper Hills commercial building under the concept of YOKOCHO, accommodating 16 diversified well-known Japanese restaurants, café and sake bar. The management is confident that this investment will enhance the market presence of the Group in food and beverage industry.

Report of the Directors

While for gaming aspect, the Group entered into an agreement to acquire 40% of equity interests in a newly incorporated Hong Kong entity, Yes! E-Sports Asia Holdings Limited, which is established to be a hub for developing and expanding the eSports business in Asia. Through allying with strategic partners, the Group aims to popularize eSports business in Japan as well as other Asian countries, increasing the Group's market and business diversification.

Further details about the Group's business, prospects and development, and analysis of the Group's performance for the year ended 31 March 2019 can also be found in the sections "Chairman's Statement" on pages 6 to 9 and "Management Discussion & Analysis" on pages 10 to 14 of this annual report.

Financial Key Performance Indicators

Certain financial key performance indicators which complement and supplement the financial disclosures are set out in "Financial Review" on pages 10 to 11 and the "Consolidated Financial Statements" on pages 43 to 111 of this annual report.

Relationship with Suppliers

The Group's major suppliers consist of pachinko and pachislot machine suppliers, game machines 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, amusement arcade business, and vending machines. As a pachinko hall and amusement arcade operator, the Group has a large and diverse customer base across Japan, Cambodia and Vietnam. 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 2019.

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 2019, the Group employed 1,457 staff for pachinko and pachislot business; and 389 staff for amusement arcades business.

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, Cambodia and Vietnam 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 and amusement centres in 2019.

Report of the Directors

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 and arcades;
- uncertainty as to the performance of the Group's existing halls and arcades;
- uncertainty as to the expansion of hall and arcade 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.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2019 are set out in the consolidated statement of comprehensive income on page 43.

The Directors have declared the payment of a final dividend of ¥0.07 per common share totaling ¥84 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 11 June 2019.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy"), which aims at setting out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the Shareholders. Under the policy, in recommending or declaring dividends, the Company shall maintain adequate cash reserve for meeting its working capital requirements and future growth as well as its shareholder value.

The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Articles of the Incorporation of the Company and all applicable laws and regulations and the various factors stipulated. When determining declaration or payment of dividends, the Company shall consider the following matters:

- the Company's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems relevant.

Report of the Directors

Any unclaimed dividend shall not be forfeited until the lapse of six years after the date of declaration of such dividend in accordance with the Company's Articles of Incorporation.

The Board will review the Dividend Policy as appropriate from time to time. The Dividend Policy has been published on the Company's website for public information.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 4 and 5 of this annual report.

SHARE CAPITAL

Details of the share capital for the year ended 31 March 2019 are set out in Note 23 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

During the year ended 31 March 2019, 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 46. Distributable reserves of the Company as at 31 March 2019 amounted to approximately ¥3,779 million.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2019 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 2019 and up 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 2019 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 (谷口久德) (formerly known as Mr. JEONG Seonggi)

Non-Executive Director
Mr. Hiroshi BANNAI (坂內弘)

Independent Non-Executive Directors
Mr. Hiroaki MORITA (森田弘昭)
Mr. Norio NAKAYAMA (中山宣男) Note
Mr. Michio MINAKATA (南方美千雄)
Mr. Yoshihiro KOIZUMI (小泉義広)

Note: Mr. Norio NAKAYAMA resigned as the independent non-executive Director on 31 October 2018.

In accordance with articles 29 of the Articles of Incorporation, all Directors will retire at the forthcoming AGM and, being eligible, offered themselves for re-election. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

PERMITTED INDEMNITY PROVISION

The Articles of Incorporation provides that the Company may execute an agreement with its directors to limit their liability under Article 423 of the Companies Act in Japan. The Company has taken out and maintained directors' liability insurance throughout the year and up to date of this annual report, which provides appropriate cover for the Directors.

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 2019 and 2018 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 37 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 2019, 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) (formerly known as JEONG Seonggi)	Beneficial owner; interest of controlled corporation[1]	225,560,460 common Shares	18.86%
Hiroshi BANNAI (坂内弘)	Beneficial owner	216,000 common Shares	0.02%

Notes:

(1) The interests held by Hisanori TANIGUCHI (谷口久徳) shown above include the 214,060,460 Shares held in his own name for his own benefit and the 11,500,000 Shares held by Densho Limited* (有限会社伝承), a company collectively wholly-owned by his children, the voting rights of which are exercisable by him.

(2) All interests stated are long positions.

(3) There were 1,195,850,460 Shares in issue as at 31 March 2019.

Save as disclosed above, as at 31 March 2019, none of the Directors and chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 March 2019, 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%
Seiai TANIGUCHI (谷口正愛) (formerly known as CHOI Jung Ae (崔正愛))	Interest of a spouse(5)	225,560,460 common shares	18.86%
Hideko TANIGUCHI (谷口秀子)	Interest of a spouse(6)	223,790,000 common shares	18.71%
Eiko TANIGUCHI (谷口栄子)	Interest of a spouse(7)	151,570,000 common shares	12.67%
JEONG Kyeonghae (鄭慶惠)	Interest of a spouse(8)	98,440,000 common shares	8.23%
Okada Holdings Limited	Beneficial owner(9)	80,500,000 common shares	6.73%

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

Notes:

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

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

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

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

(5) Ms. Seiai TANIGUCHI (谷口正愛) (formerly known as CHOI Jung Ae (崔正愛)) is the spouse of our Chairman and is therefore deemed to be interested in the Shares that our Chairman is interested in under the SFO.

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

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

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

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

(10) All interests stated are long positions.

There were 1,195,850,460 Shares in issue as at 31 March 2019.

Save as disclosed above, and as at 31 March 2019, 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 2019, 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 2019, less than 1.0% of the Group's revenue were attributed by the Group's five largest customers; while 68.1% and 88.9% 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 2019 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 37 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 2019.

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 2019.

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

The environmental, social and governance report of the Group 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 (formerly known as JEONG Seonggi)

Fukushima, Japan, 24 May 2019

* *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 43 to 111, which comprise:

- the consolidated statement of financial position as at 31 March 2019;
- 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 2019, 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.

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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

Independent Auditor's Report

Key Audit Matter	How our audit addressed the 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 2019, the Group had property, plant and equipment of ¥28,523 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 restaurant and amusement arcade. The performance of the Group's pachinko and pachislot hall operations was 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 view that some of the CGUs had performed below management's expectation or were loss-making, management considered there were impairment indicators for these CGUs. Management performed impairment assessments 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 ¥195 million was recorded for the year ended 31 March 2019. We focused on this area due to the significance of the carrying value of the property, plant and equipment to the Group, as well as the significant judgments and estimates involved in the determination of value-in-use calculations, including the revenue growth rate and discount rate.	In relation to the impairment assessment of property, plant and equipment performed by management, we assessed the reasonableness of management's assessments which were to identify impairment indicators for the CGUs that had performed below management's expectation or were loss-making. 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 included: • 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 had 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

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.

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.

Independent Auditor’s Report

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.

- 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.

Independent Auditor's Report

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, 24 May 2019

* *For identification purpose only*

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	Note	2019 ¥ million	2018 ¥ million
Revenue	5	**28,325**	26,554
Other income	6	**551**	606
Other gains, net	6	**54**	121
Hall operating expenses	7	**(22,875)**	(22,640)
Administrative and other operating expenses	7	**(4,502)**	(3,918)
Operating profit		**1,553**	723
Finance income		**52**	51
Finance costs		**(507)**	(561)
Finance costs, net	9	**(455)**	(510)
Share of results of an associate	12	**(5)**	–
Profit before income tax		**1,093**	213
Income tax expense	10	**(549)**	(273)
Profit/(loss) for the year		**544**	(60)
Profit/(loss) attributable to:			
Owners of the Company		**610**	(15)
Non-controlling interest		**(66)**	(45)
		544	(60)
Earnings/(loss) per share for profit/(loss) attributable to owners of the Company			
— Basic and diluted (expressed in Japanese Yen per share)	11	**0.510**	(0.013)
Other comprehensive income/(loss)			
Items that have been reclassified or may be subsequently reclassified to profit or loss			
Change in value of financial assets through other comprehensive income		**(29)**	(179)
Currency translation differences		**99**	(93)
Total comprehensive income/(loss) for the year		**614**	(332)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**680**	(287)
Non-controlling interest		**(66)**	(45)
		614	(332)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 March 2019

	Note	2019 ¥ million	2018 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment	13	**28,523**	26,207
Investment properties	14	**650**	662
Intangible assets	15	**1,662**	1,571
Prepayments, deposits and other receivables	21	**4,208**	3,751
Interest in an associate	12	**–**	–
Financial assets at fair value through profit or loss	17	**100**	52
Financial assets at fair value through other comprehensive income	17	**911**	953
Deferred income tax assets	29	**1,588**	1,565
Long-term bank deposits	22	**–**	47
		37,642	34,808
Current assets			
Inventories	19	**109**	57
Trade receivables	20	**53**	57
Prepayments, deposits and other receivables	21	**1,020**	1,312
Current income tax recoverable		**–**	300
Bank deposits with maturity over 3 months	22	**43**	43
Cash and cash equivalents	22	**15,176**	15,594
		16,401	17,363
Total assets		**54,043**	52,171

Consolidated Statement of Financial Position

As at 31 March 2019

	Note	2019 ¥ million	2018 ¥ million
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	**3,000**	3,000
Reserves	24	**24,617**	24,176
		27,617	27,176
Non-controlling interest		**(106)**	(40)
Total equity		**27,511**	27,136
LIABILITIES			
Non-current liabilities			
Borrowings	27	**11,792**	10,854
Obligations under finance leases	28	**2,717**	3,247
Provisions and other payables	26	**2,226**	2,111
Derivative financial instruments	18	**27**	8
		16,762	16,220
Current liabilities			
Trade payables	25	**294**	247
Borrowings	27	**4,290**	3,886
Obligations under finance leases	28	**703**	888
Accruals, provisions and other payables	26	**4,353**	3,793
Derivative financial instruments	18	**4**	1
Current income tax liabilities		**126**	–
		9,770	8,815
Total liabilities		**26,532**	25,035
Total equity and liabilities		**54,043**	52,171

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 43 to 111 were approved by the Board of Directors on 24 May 2019 and were signed on its behalf.

Hisanori Taniguchi
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

	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	Exchange reserve ¥ million	Sub-total ¥ million	Non-controlling interest ¥ million	Total ¥ million
Balances at 1 April 2017	3,000	13,954	(16,028)	107	272	26,194	–	27,499	–	27,499
Comprehensive loss										
Loss for the year	–	–	–	–	–	(15)	–	(15)	(45)	(60)
Other comprehensive loss										
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(179)	–	–	(179)	–	(179)
Currency translation difference	–	–	–	–	–	–	(93)	(93)	–	(93)
Total comprehensive loss for the year	–	–	–	–	(179)	(15)	(93)	(287)	(45)	(332)
Issuance of shares of a subsidiary to a non-controlling shareholder	–	–	–	–	–	–	–	–	5	5
Final dividend relating to 2017 (Note 30)	–	–	–	–	–	(36)	–	(36)	–	(36)
Total transactions with owners	–	–	–	–	–	(36)	–	(36)	5	(31)
Balance at 31 March 2018	3,000	13,954	(16,028)	107	93	26,143	(93)	27,176	(40)	27,136
Balances at 1 April 2018	**3,000**	**13,954**	**(16,028)**	**107**	**93**	**26,143**	**(93)**	**27,176**	**(40)**	**27,136**
Comprehensive income										
Profit for the year	**–**	**–**	**–**	**–**	**–**	**610**	**–**	**610**	**(66)**	**544**
Other comprehensive income										
Financial assets at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**(29)**	**–**	**–**	**(29)**	**–**	**(29)**
Currency translation difference	**–**	**–**	**–**	**–**	**–**	**–**	**99**	**99**	**–**	**99**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(29)**	**610**	**99**	**680**	**(66)**	**614**
Final dividend relating to 2018 (Note 30)	**–**	**–**	**–**	**–**	**–**	**(143)**	**–**	**(143)**	**–**	**(143)**
Interim dividend relating to 2019 (Note 30)	**–**	**–**	**–**	**–**	**–**	**(96)**	**–**	**(96)**	**–**	**(96)**
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**(239)**	**–**	**(239)**	**–**	**(239)**
Balance at 31 March 2019	**3,000**	**13,954**	**(16,028)**	**107**	**64**	**26,514**	**6**	**27,617**	**(106)**	**27,511**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 March 2019

	Note	2019 ¥ million	2018 ¥ million
Cash flows from operating activities			
Cash generated from operations	31	**5,082**	3,797
Interest paid		**(391)**	(423)
Income tax paid		**(126)**	(424)
Net cash generated from operating activities		**4,565**	2,950
Cash flows from investing activities			
Payment for acquisition of a subsidiary, net of cash acquired	34	**–**	(1,753)
Payment for interest in an associate	12	**(5)**	–
Purchase of property, plant and equipment		**(4,587)**	(1,787)
Purchase of investment properties	14	**(14)**	(3)
Purchase of intangible assets	15	**(83)**	(1)
Proceeds from disposal of property, plant and equipment		**4**	539
Purchase of financial assets at fair value		**(100)**	–
Proceeds from disposal of financial assets at fair value		**50**	50
Payment of long-term loan to an associate	12	**(354)**	–
Proceeds from bank deposits with maturity over 3 months		**–**	309
Placement of bank deposits with maturity over 3 months		**–**	(100)
Placement of long-term bank deposits		**–**	(12)
Proceeds from long-term bank deposits		**47**	–
Interest received		**1**	3
Dividend received		**55**	57
Net cash used in investing activities		**(4,986)**	(2,698)
Cash flows from financing activities			
Repayment of obligations under finance leases		**(981)**	(1,285)
Proceeds from bank borrowings		**6,127**	5,589
Repayment of bank borrowings		**(4,901)**	(2,326)
Dividends paid		**(239)**	(36)
Net cash generated from financing activities		**6**	1,942
Net (decrease)/increase in cash and cash equivalents		**(415)**	2,194
Cash and cash equivalents at beginning of the year		**15,594**	13,404
Exchange loss on cash and cash equivalents		**(3)**	(4)
Cash and cash equivalents at end of the year		**15,176**	15,594

The above consolidated statement of statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION 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, hotel and restaurant operations in Japan; and amusement arcade operations in Southeast Asian countries.

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

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with International Financial Reporting Standards and Hong Kong Companies Ordinance

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.

(ii) Historical cost convention

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(iii) New and amended standards adopted by the Group

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

IFRS 2 (Amendment)	Classification and measurement of share-based payment transactions
IFRS 4 (Amendment)	Applying IFRS 9 Financial Instrument with IFRS 4 Insurance Contract
IFRS 15	Revenue from contracts with customers
IFRS 15 (Amendment)	Clarification to IFRS 15
IFRIC 22	Foreign currency transactions and advance consideration
IAS 40 (Amendment)	Transfers of investment property
Annual improvement Project IFRS 1 and IAS 28 (Amendment)	Annual improvement Project 2014–2016 Cycle

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

Adoption of IFRS 15, "Revenue from contracts with customers"

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

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

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

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

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

The adoption of IFRS 15 has no material impact to the Group's net assets as at 31 March 2018 and the consolidated results, earnings per share (basic and diluted) and consolidated statement of cash flows for the year ended 31 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(iv) 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 2019 or later periods, but have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

		Effective for accounting year beginning on or after
IAS 19 (Amendments)	Employee Benefits	1 January 2019
IAS 28 (Amendments)	Long-term interests in associates and joint ventures	1 January 2019
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Annual Improvements to IFRS	Annual improvements 2015–2017 Cycle	1 January 2019
IFRS 17	Insurance contracts	1 January 2021
IFRS 10 and IFRS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

IFRS 16 Leases

IFRS 16 provides new provision for the accounting treatment of leases and will result in almost all leases being recognised on the consolidated statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, a right-of-use ("ROU") asset (for the rights to use the leased item) and a financial liability (for the payment obligations) will be recognised. The only exceptions are short-term and low-value leases.

The new standard will therefore result in an increase in ROU and an increase in lease liability in the consolidated statement of financial position. In the combined statement of comprehensive income, lease will be recognised as depreciation over the terms of the leases and will no longer be recorded as rental expenses. Interest expense on the lease liability will be presented separately from depreciation under finance cots. The combination of a straight-line depreciation of the ROU and the effective interest rate method applied to the lease liability will result in a higher total charge to the profit or loss in the initial year of the leases, and decreasing expenses during the later part of the lease terms on a lease-by-lease basis. Hence, adopting the new standard will have effects to the financial performance of the Group by increasing EBITDA and EBIT. Operating cash flows will increase and financing cash flows will decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows used in financing activities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(iv) *New standards and amendments to existing standards not yet adopted by the Group* (Continued)

IFRS 16 Leases (Continued)

Nevertheless, it is expected that there will be no material impact on the total expenses to be recognised over the entire lease period and the Group's total net profit over the lease period is not expected to be materially affected. As at the reporting date, the Group has non-cancellable operating lease commitments of ¥10,176 million (Note 33(b)). Based on a preliminary assessment, the total assets and total liabilities are expected to be increased with no material impact on the net assets.

The Group has set up a project team to review the Group's leasing arrangements in light of the new standard and will continue to assess the full impact of the adoption of IFRS 16.

The Group will apply the standard from its mandatory adoption date of 1 April 2019. The Group intends to elect the modified retrospective approach where the cumulative effects of initially applying IFRS 16 will be recognised as an adjustment to the opening balance of retained profits without restating the comparative figures.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation and equity accounting

(i) *Subsidiaries*

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.

The acquisition method of accounting is used to account for business combinations by the group (refer to Note 2.3).

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

(iii) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes 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 or transferred to another category of equity as specified or permitted by applicable IFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 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.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The board of the Company has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic decisions.

2.6 Foreign currency translation

(i) 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.

(ii) 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.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the profit or loss on a net basis within "Other gains, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each financial position presented are translated at the closing rate at the date of that financial position,

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.7 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 depreciation. 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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment (Continued)

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 gains, net" in profit or loss.

2.8 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets

(i) Goodwill

Goodwill is measured as described in Note 2.10. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(ii) Trademarks, licenses and contract relationship

Separately acquired trademarks and licences are shown at historical cost. Trademarks and contract relationship acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried 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 7 to 10 years.

(iii) Computer software

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

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets

(i) 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.

(ii) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(ii) Recognition, derecognition and measurement (Continued)

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.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Company currently has 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. Arrangements entered by the Company that do not meet the criteria for offsetting are still allowed for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.13 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 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.

2.15 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.

2.16 Cash and cash equivalents

For the purpose of presentation 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 that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.17 Share capital

Ordinary shares are classified as equity.

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

2.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 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.

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (Continued)

(ii) Deferred income tax

Deferred income tax is provided in full, 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 tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in 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.

2.21 Employee benefits

(i) Pension obligations

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (Continued)

(ii) 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.

(iii) 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.

(iv) Long service payments

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

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

2.22 Provisions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition

Revenue from contracts with customers is recognised by reference to each distinct performance obligation promised in the contract with customer when or as the Group transfers controls of the goods or services promised in a contract and the customer obtains control of the goods or services.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;

- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If any of the above conditions are not met, the Group recognises revenue at the point in time at which the performance obligation is satisfied.

Specific criteria for each of the Group's activities are described as below.

(i) 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 of 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.

A contract liability is recognised when the Group has received upfront fees from the customers. The Group records these as unutilised balls and tokens in the liabilities section of the consolidated statement of financial position. Such contract liability is recognised as revenue when they are utilised by customers. Income from expired prepaid integrated circuit ("IC") and membership cards are recognised as other income upon expiry of the usage period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (Continued)

(ii) Hotel revenue from room rental is recognised over time during the period of stay for the hotel guests.

(iii) 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.

A contract liability is recognised when the Group has received upfront fees from the customers. The Group records these as rental receipt in advance in the liabilities section of the consolidated statement of financial position. Such contract liability is recognised as revenue when such services are rendered to customers.

(iv) Restaurant revenue from provision of catering services is recognised when the related catering services have been provided to customers.

(v) Amusement arcade business is recognised when the provision of amusement arcade services are rendered, being when the customers utilised the tokens to play the games. A contract liability is recognised when the Group has received upfront fees from the customers. The Group records these as unutilised tokens in the liabilities section of the consolidated statement of financial position. Such contract liability is recognised as revenue when such services are rendered to customers.

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

2.24 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of consolidated statement of comprehensive income as part of "other gains, net". Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss and at fair value through other comprehensive income. Dividends are recognised as other income in the consolidated statement of comprehensive income when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 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 profit or loss 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 profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Leases

(i) As lessee

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

(ii) 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.

2.28 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 and is exposed to foreign exchange risk arising from various foreign currency transactions and foreign, primarily with respect to cash and cash equivalents denominated in Hong Kong dollar ("HK$"), US dollar ("US$") and Vietnamese Dong ("VND") and Renminbi ("RMB").

The Group also has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

At 31 March 2019, 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 ¥9 million higher or lower (2018: ¥16 million), mainly as a result of foreign exchange differences on translation of HK$ denominated cash at bank balance.

At 31 March 2019, if US$ had strengthened/weakened by 5% against the ¥, with all other variables held constant, post-tax profit for the year would have been approximately ¥16 million, higher or lower (2018: ¥27 million), mainly as a result of foreign exchange differences on translation of US$ denominated cash at bank balance.

At 31 March 2019, if VND had strengthened/weakened by 5% against the ¥, with all other variables held constant, post-tax profit for the year would have been approximately ¥4 million, higher or lower (2018: ¥2 million), mainly as a result of foreign exchange differences on translation of VND denominated cash at bank balance.

At 31 March 2019, if RMB had strengthened/weakened by 5% against the ¥, with all other variables held constant, post-tax profit for the year would have been approximately ¥2 million, higher or lower (2018: Nil), mainly as a result of foreign exchange differences on translation of RMB 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 2019, 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 ¥2 million (2018: ¥2 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 2019 (2018: 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.

	2019 ¥ million	2018 ¥ million
Impact on other components of equity		
Share prices:		
— increase by 5%	**39**	41
— decrease by 5%	**(39)**	(41)

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, loan to an associate, 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% (2018: 99%) of the Group's revenue is settled in cash, mitigating credit risk. There are no significant concentration of credit risk, whether through exposure to individual customers, specific industry sector and/or regions.

As at 31 March 2019, top 5 customers of the Group accounted for approximately 70.9% (2018: 63%) 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.

Trade receivables are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group considers a financial asset as in default if the counterparty fails to make contractual payments within 90 days when they fall due. The Group writes off trade receivables, in whole or in part, when it was exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include bankrupt or termination of contracts. Where receivables are written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

In measuring the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 months and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance during the years ended 31 March 2019 and 2018 is determined based on an expected loss rate of 0%.

The Company adopts general approach for expected credit losses of other receivables and loan to an associate and consider these financial assets have not significantly increased in credit risk from initial recognition. Thus, these financial assets are classified in stage one and only consider 12-month expected credit losses.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets and receivables; and long term financing including long-term borrowings. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying balances as the impact of discounting is not significant.

	Within 1 year ¥ million	Between 1 and 2 years ¥ million	Between 2 and 5 years ¥ million	Over 5 years ¥ million	Total ¥ million
As at 31 March 2019					
Trade payables	**294**	**–**	**–**	**–**	**294**
Other payables (excluding accruals)	**2,056**	**–**	**32**	**3,150**	**5,238**
Borrowings	**4,636**	**2,711**	**6,264**	**4,026**	**17,637**
Obligations under finance leases	**833**	**564**	**157**	**2,642**	**4,196**
	7,819	**3,275**	**6,453**	**9,818**	**27,365**
As at 31 March 2018					
Trade payables	247	–	–	–	247
Other payables (excluding accruals)	1,817	1	30	2,407	4,255
Borrowings	4,054	2,942	5,211	3,100	15,307
Obligations under finance leases	1,041	817	1,206	1,985	5,049
	7,159	3,760	6,447	7,492	24,858

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

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

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

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

	2019 ¥ million	2018 ¥ million
Borrowings	**16,082**	14,740
Obligations under finance leases	**3,420**	4,135
Total debt	**19,502**	18,875
Equity	**27,511**	27,136
Gearing ratio	**70.9%**	69.6%

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 2019				
Assets				
Financial assets at fair value through profit or loss				
— Unlisted securities	**–**	**100**	**–**	**100**
Financial assets at fair value through other comprehensive income				
— Listed securities	**781**	**–**	**–**	**781**
— Unlisted securities	**–**	**–**	**130**	**130**
	781	**100**	**130**	**1,011**
Liabilities				
Derivative financial instruments				
— Interest rate swaps	**–**	**31**	**–**	**31**
As at 31 March 2018				
Assets				
Financial assets at fair value through profit or loss				
— Unlisted securities	–	52	–	52
Financial assets at fair value through other comprehensive income				
— Listed securities	823	–	–	823
— Unlisted securities	–	–	130	130
	823	52	130	1,005
Liabilities				
Derivative financial instruments				
— Interest rate swaps	–	9	–	9

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(i) Financial instruments in level 1

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

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at 31 March 2019, 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.

(iii) Financial instruments in level 3

As at 31 March 2019, 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 2019.

3.4 Offsetting financial assets and financial liabilities

As at 31 March 2019 and 2018, there were no financial assets or financial liabilities which were subject to offsetting, enforceable master netting or similar agreements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Group is subject to income taxes in Japan, Vietnam and Cambodia. 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: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable: (ii) 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 (iii) 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) Impairment of goodwill

The Group conducts reviews annually whether goodwill has suffered any impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts of CGUs are determined based on value-in-use calculations or fair value less costs of disposal. Value-in-use calculations require the use of management judgements and estimates in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Fair value less costs of disposal calculations require available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. Changing the assumptions selected by management in assessing 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 assessment and as a result affect the Group's financial condition and results of operations.

Details of the key assumptions applied by management in assessing impairment of goodwill are stated in Note 15.

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 2.27. 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

	2019 ¥ million	2018 ¥ million
Revenue		
Gross pay-ins	141,731	138,493
Less: gross pay-outs	(115,850)	(113,230)
Revenue from pachinko and pachislot hall business	25,881	25,263
Revenue from amusement arcades	1,535	417
Vending machine income	507	536
Revenue from hotel operations	132	158
Revenue from restaurant operations	270	180
	28,325	26,554

(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 three reportable segments based on the types of services, namely (i) pachinko and pachislot hall operations, (ii) amusement arcade operations, and (iii) others, representing hotel and restaurant operations.

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, financial assets at fair value through other comprehensive income and interest in an associate.

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 2019 and 2018 are as follows:

	Year ended 31 March 2019			
	Pachinko and pachislot hall operations	Amusement arcade operations	Other	Total
	Japan	Southeast Asia	Japan and China	
	¥ million	¥ million	¥ million	¥ million
Segment revenue from external customers				
– Over time	26,388	1,535	402	28,325
Segment results	2,314	153	(237)	2,230
Corporate expenses				(1,132)
Share of results of an associate				(5)
Profit before income tax				1,093
Income tax expense				(549)
Profit for the year				544
Other segment items				
Depreciation and amortisation expenses	(2,278)	(283)	(71)	(2,632)
Finance income	50	2	–	52
Finance costs	(501)	(6)	–	(507)
Capital expenditures	4,606	156	419	5,181

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

	Year ended 31 March 2018			
	Pachinko and pachislot hall operations	Amusement arcade operations	Other	Total
	Japan	Southeast Asia	Japan and China	
	¥ million	¥ million	¥ million	¥ million
Segment revenue from external customers				
– Over time	25,799	417	338	26,554
Segment results	1,223	(74)	(213)	936
Corporate expenses				(723)
Profit before income tax				213
Income tax expense				(273)
Loss for the year				(60)
Other segment items				
Depreciation and amortisation expenses	(2,243)	(95)	(45)	(2,383)
Finance income	49	2	–	51
Finance costs	(539)	(22)	–	(561)
Capital expenditures	1,768	76	75	1,919

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment assets as at 31 March 2019 and 2018 are as follows:

	Pachinko and pachislot hall operations	Amusement arcade operations	Other	Total
	Japan	Southeast Asia	Japan and China	
	¥ million	¥ million	¥ million	¥ million
As at 31 March 2019				
Segment assets	**42,933**	**1,003**	**1,821**	**45,757**
Unallocated assets				**6,698**
Deferred income tax assets				**1,588**
Total assets				**54,043**
As at 31 March 2018				
Segment assets	42,247	980	1,108	44,335
Unallocated assets				6,271
Deferred income tax assets				1,565
Total assets				52,171

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

	2019 ¥ million	2018 ¥ million
Japan, country of domicile	**34,016**	31,609
Southeast Asia and China	**1,027**	629
	35,043	32,238

No single external customer contributed more than 10% revenue to the Group's revenue for the year ended 31 March 2019 and 2018.

Notes to the Consolidated Financial Statements

6 OTHER INCOME AND OTHER GAINS, NET

	2019 ¥ million	2018 ¥ million
Other income		
Rental income	**167**	154
Income from expired IC and membership cards	**29**	31
Dividend income	**55**	57
Compensation and subsidies	**3**	4
Income from scrap sales of used pachinko and pachislot machines	**265**	331
Others	**32**	29
	551	606
Other gains, net		
Loss on fair value for financial assets at fair value through profit or loss	**(2)**	(2)
(Loss)/gain on fair value for derivative financial instruments	**(23)**	3
(Loss)/gain on disposal of property, plant and equipment	**(54)**	215
Release of obligation under finance leases upon closure of halls	**133**	–
Loss on disposal of investment properties	**(7)**	–
Net exchange gain/(loss)	**7**	(95)
	54	121

7 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2019 ¥ million	2018 ¥ million
Auditors' remuneration		
— Audit fees	**100**	76
— Other services	**7**	13
Employee benefits expenses		
— Hall operations	**5,510**	5,176
— Administrative and others	**1,683**	1,635
Operating lease rental expense in respect of land and buildings	**3,006**	2,835
Depreciation of property, plant and equipment	**2,532**	2,315
Depreciation of investment properties	**19**	19
Write off of other receivables (Note 21)	**–**	54
Amortisation of intangible assets	**81**	49
Reinstatement expenses	**26**	25
Recruitment expenses	**65**	52
Travelling and transportation	**125**	132
Other taxes and duties	**395**	348
Repairs and maintenance	**291**	226
Utilities expenses	**1,055**	952
Consumables and cleaning	**1,495**	1,438
Outsourcing service expenses	**1,048**	962
G-Prize procurement expenses to wholesalers	**753**	763
Pachinko and pachislot machines expenses (Note (i))	**6,971**	7,699
Advertising expenses	**1,121**	1,102
Service fee (Note 35)	**32**	35
Impairment loss on property, plant and equipment	**195**	–
Legal and professional fees	**46**	155
Loss on termination of existing/opening of outlets (Note (ii))	**240**	46
Others	**581**	451
	27,377	26,558

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 2019, two pachinko and pachislot halls were closed. The amount of ¥240 million represents penalty charges for early termination of rental contracts of ¥143 million, forfeiture of rental deposits of ¥74 million and miscellaneous expenses in relation to the closure of halls of ¥23 million.

During the year ended 31 March 2018, a pachinko and pachislot hall and a restaurant were closed. The amount of ¥46 million represents penalty charge for early termination of rental contract of ¥8 million and forfeiture of rental deposits of ¥3 million in relation to the closure of a restaurant and ¥35 million penalty charge in relation to closure of the pachinko and pachislot hall.

8 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2019 ¥ million	2018 ¥ million
Salaries, bonuses and allowances	**5,877**	5,554
Pension costs — defined contribution plan	**78**	78
Other employee benefits	**1,238**	1,179
	7,193	6,811

(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 (2018: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2019 include 1 director (2018: 1 director) whose emoluments are reflected in the analysis shown in Note 37. The emoluments payable to the remaining 4 (2018: 4) individuals during the year ended 31 March 2019 are as follows:

	2019 ¥ million	2018 ¥ million
Salaries, allowances and other benefits	**90**	85
Bonuses	**–**	–
Pension cost — defined contribution plan	**3**	3
	93	88

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

	Number of individuals	
	2019	2018
Emolument bands		
¥ Nil to ¥13,540,000 (equivalent to approximately HK$Nil to HK$1,000,000)	**2**	2
¥13,540,001 to ¥20,310,000 (equivalent to approximately HK$1,000,001 to HK$1,500,000)	**–**	–
¥20,310,001 to ¥27,080,000 (equivalent to approximately HK$1,500,001 to HK$2,000,000)	**–**	–
¥27,080,001 to ¥33,850,000 (equivalent to approximately HK$2,000,001 to HK$2,500,000)	**2**	2

Notes to the Consolidated Financial Statements

9 FINANCE COSTS, NET

	2019 ¥ million	2018 ¥ million
Finance income		
Bank interest income	**1**	3
Other interest income	**51**	48
	52	51
Finance costs		
Bank borrowings	**(196)**	(195)
Obligations under finance leases	**(195)**	(228)
Provision for unwinding discount	**(116)**	(138)
	(507)	(561)
Finance costs, net	**(455)**	(510)

10 INCOME TAX EXPENSE

	2019 ¥ million	2018 ¥ million
Current income tax		
— Japan	**518**	170
— Other Asian countries	**34**	9
	552	179
Deferred income tax (Note 29)	**(3)**	94
	549	273

Taxation has been provided at the appropriate rates prevailing in the countries in which the Group operates.

No provision for Hong Kong profits tax or China income tax have been made for the years ended 31 March 2019 and 2018 as the Group did not generate any assessable profits arising in Hong Kong and China during the years ended 31 March 2019 and 2018.

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:

	2019 ¥ million	2018 ¥ million
Profit before income tax	**1,093**	213
Tax calculated at domestic tax rates applicable to profits in the respective countries	**327**	64
Income not subject to tax	**(3)**	(3)
Expenses not deductible for tax purpose	**179**	138
Unrecognised tax losses	**72**	71
Utilisation of previously unrecognised tax losses	**(13)**	(4)
Effect of change in tax rate	**(13)**	7
	549	273

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 29.9% (2018: 30.2%) for the year ended 31 March 2019.

As a result of the 2016 Tax Reform that was approved on 29 March 2016, the national corporate income tax rate of Japan was 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%.

Taxation on other Asian countries profits has been calculated on the estimated profit for the year at the rate of taxation prevailing in the countries in which the Group operates. These rates range from 17% to 20% (2018: 17% to 20%).

11 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 March 2019 and 2018.

	2019	2018
Profit/(loss) attributable to owners of the Company (¥ million)	**610**	(15)
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share (thousands)	**1,195,850**	1,195,850
Basic and diluted earnings/(loss) per share (¥)	**0.510**	(0.013)

No diluted earnings/(loss) per share is presented as there was no potential dilutive shares during the years ended 31 March 2019 and 2018. Diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share.

12 INTEREST IN AN ASSOCIATE

	2019 ¥ million
Unlisted share, at cost	5
Share of loss	(5)
Carrying amount	–
Unrecognised share of loss	(14)

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

In addition to the capital contribution, the Group has also entered a loan agreement with YEAH to provide it with a US$3,200,000 loan (equivalent to approximately ¥354 million) with interest rate at 4% per annum. The loan was provided on 15 November 2018 and is repayable every six months by instalments over four years. The Group has the right to demand for full repayment by the time YEAH has surplus funds (defined as any amount of funds, including cash and cash equivalents, in excess of debt or debt-like liabilities such as lease obligations) that exceeds US$3,200,000 principal amount of the loan.

YEAH is a private company and there is no quoted market price. There is no contingent liability relating to the Group's interest in the associate.

The table below summarised the financial information of the associate that is considered immaterial to the Group.

	2019 ¥ million
Non-current assets	10
Current assets	313
Non-current liabilities	(355)
Current liabilities	(7)
Net liabilities	(39)
Revenue	3
Loss for the year	(48)

Notes to the Consolidated Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land ¥ million	Buildings ¥ million	Leasehold improve-ments ¥ million	Equipment and tools ¥ million	Motor vehicles ¥ million	Construction in progress ¥ million	Total ¥ million
Cost							
At 1 April 2017	7,752	17,514	12,330	12,202	152	29	49,979
Additions	–	102	521	412	44	836	1,915
Acquisition of subsidiaries (Note 34)	–	–	216	351	–	12	579
Disposals	(502)	(174)	(529)	(304)	(66)	(38)	(1,613)
Transfer between categories	–	209	359	245	–	(813)	–
Translation differences	–	–	(12)	(21)	–	–	(33)
At 31 March 2018 and 1 April 2018	7,250	17,651	12,885	12,885	130	26	50,827
Additions	1,508	1,128	1,527	613	25	283	5,084
Disposals	–	(793)	(661)	(334)	(15)	–	(1,803)
Transfer between categories	–	98	157	26	–	(281)	–
Translation differences	–	–	9	15	–	–	24
At 31 March 2019	8,758	18,084	13,917	13,205	140	28	54,132
Accumulated depreciation and impairment							
At 1 April 2017	(189)	(7,424)	(7,417)	(8,441)	(102)	–	(23,573)
Depreciation (Note 7)	–	(744)	(663)	(883)	(25)	–	(2,315)
Disposals	189	174	521	301	66	–	1,251
Translation differences	–	–	2	15	–	–	17
At 31 March 2018 and 1 April 2018	–	(7,994)	(7,557)	(9,008)	(61)	–	(24,620)
Depreciation (Note 7)	–	(752)	(776)	(980)	(24)	–	(2,532)
Disposals	–	788	636	306	15	–	1,745
Impairment (Note 7)	–	(82)	(43)	(70)	–	–	(195)
Translation differences	–	–	(1)	(6)	–	–	(7)
At 31 March 2019	–	(8,040)	(7,741)	(9,758)	(70)	–	(25,609)
Net book value							
At 31 March 2019	8,758	10,044	6,176	3,447	70	28	28,523
At 31 March 2018	7,250	9,657	5,328	3,877	69	26	26,207

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Approaching the year ended 31 March 2019, the Group purchased a pachinko hall property from a third party seller at a consideration of ¥3,600 million, comprising freehold land, building and leasehold improvement and equipment associated with building of ¥1,504 million, ¥1,951 million and ¥145 million, respectively.

Depreciation expenses of ¥2,490 million (2018: ¥2,287 million) has been charged in "hall operating expenses" and ¥42 million (2018: ¥28 million) has been charged in "administrative and other operating expenses" for the year ended 31 March 2019.

Construction in progress as at 31 March 2019 and 2018 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 2019 and 2018 has been disclosed in Note 27.

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

	Buildings ¥ million	Equipment and tools ¥ million	Total ¥ million
As at 31 March 2019			
Cost — capitalised finance leases	**6,863**	**20**	**6,883**
Accumulated depreciation	**(3,240)**	**(17)**	**(3,257)**
	3,623	**3**	**3,626**
As at 31 March 2018			
Cost — capitalised finance leases	6,864	206	7,070
Accumulated depreciation	(3,105)	(125)	(3,230)
	3,759	81	3,840

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, restaurants and amusement arcades.

For the year ended 31 March 2019, in view that some of the CGUs have performed below management's expectation or were loss-making, the directors have reviewed the recoverability of the relevant carrying amounts of these CGUs.

Notes to the Consolidated Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The recoverable amount of a CGU is determined based on the fair value less cost to sell or value-in-use of calculation, whichever is higher. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The key assumptions used in the value-in-use calculation for the years ended 31 March 2019 and 2018.

	2019	2018
Revenue growth rate	**0%**	0%
Discount rate	**8.5%**	8.6%

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.

For the year ended 31 March 2019, as a result of the impairment review, impairment loss of approximately ¥195 million (2018: Nil) has been recognised.

If the forecast revenue was lower by 5%, with all other variable held constant, the change of result would be insignificant.

14 INVESTMENT PROPERTIES

	2019 ¥ million	2018 ¥ million
At 1 April		
Cost	**857**	854
Accumulated depreciation	**(195)**	(176)
	662	678
At cost		
At beginning of year	**662**	678
Additions	**14**	3
Disposals	**(7)**	–
Depreciation	**(19)**	(19)
At end of year	**650**	662
At 31 March		
Cost	**858**	857
Accumulated depreciation	**(208)**	(195)
	650	662

14 INVESTMENT PROPERTIES (CONTINUED)

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 2019 and 2018.

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:

	2019 **¥ million**	2018 ¥ million
Rental income	**96**	90
Direct operating expenses from property that generated rental income	**(18)**	(16)
	78	74

The Group's investment properties were valued as at 31 March 2019 and 2018 by independent professionally qualified valuer, JLL Morii Valuation & Advisory K.K., who hold 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 2019 is ¥840 million (2018: ¥813 million). No impairment loss was recognised.

15 INTANGIBLE ASSETS

	Goodwill ¥ million	Computer software ¥ million	Trademarks ¥ million	License ¥ million	Contract relationship ¥ million	Total ¥ million
At 1 April 2017						
Cost	104	506	–	–	–	610
Accumulated amortisation	–	(428)	–	–	–	(428)
Net book amount	104	78	–	–	–	182
Year ended 31 March 2018						
Opening net book amount	104	78	–	–	–	182
Additions	–	1	–	–	–	1
Acquisition of business (Note 34)	1,109	–	126	–	282	1,517
Amortisation (Note 7)	–	(32)	(5)	–	(12)	(49)
Translation difference	(59)	–	(7)	–	(14)	(80)
Closing net book amount	1,154	47	114	–	256	1,571
At 1 April 2018						
Cost	1,154	493	119	–	268	2,034
Accumulated amortisation	–	(446)	(5)	–	(12)	(463)
Net book amount	1,154	47	114	–	256	1,571
Year ended 31 March 2019						
Opening net book amount	1,154	47	114	–	256	1,571
Additions	–	2	–	81	–	83
Amortisation (Note 7)	–	(25)	(13)	(13)	(30)	(81)
Translation difference	51	–	11	–	27	89
Closing net book amount	1,205	24	112	68	253	1,662
At 31 March 2019						
Cost	1,205	491	131	81	294	2,202
Accumulated amortisation	–	(467)	(19)	(13)	(41)	(540)
Net book amount	1,205	24	112	68	253	1,662

Amortisation expenses of ¥81 million was charged in “hall operating expenses” for the year ended 31 March 2019 (2018: ¥49 million).

Notes to the Consolidated Financial Statements

15 INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill

Goodwill is monitored by management at the level of individual pachinko and pachislot hall and the operating segment of amusement arcade operations.

A segment-level summary of the goodwill allocation is represented below.

	2019 ¥ million	2018 ¥ million
Pachinko and pachislot business	**104**	104
Amusement arcade business	**1,101**	1,050
	1,205	1,154

Goodwill is allocated to each CGU of individual pachinko and pachislot hall and a group of CGUs comprising the amusement arcade operations. Management reviews annually whether the carrying amount of the CGU or the group of CGUs 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.

For the pachinko and pachislot halls, 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 2019 and 2018. As a result, no impairment loss was charged during the years ended 31 March 2019 and 2018.

For the amusement arcade business, the annual revenue growth rate during the projection period is 3% to 4% whereas cash flows beyond the three-year period are extrapolated using an estimated growth rate of 3.8%. The discount rate of 19.7% is pre-tax and reflects the specific risks related to the relevant business. 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 2019 and 2018. As a result, no impairment loss was charged during the years ended 31 March 2019 and 2018. Any reasonably possible change in the key assumptions will not result in significant impairment.

Notes to the Consolidated Financial Statements

16 FINANCIAL INSTRUMENTS BY CATEGORY

	2019 ¥ million	2018 ¥ million
Financial assets		
Financial assets at fair value		
Fair value through profit or loss	**100**	52
Fair value through other comprehensive income	**911**	953
	1,011	1,005
Financial assets at amortised cost		
Trade receivables	**53**	57
Loan to an associate	**354**	–
Deposits and other receivables	**3,332**	3,200
Cash and bank balances	**15,219**	15,684
	18,958	18,941
	19,969	19,946
Financial liabilities		
Financial liabilities at fair value		
Derivative financial instruments	**31**	9
Other financial liabilities at amortised cost		
Trade payables	**294**	247
Other payables	**4,295**	3,930
Borrowings	**16,082**	14,740
Obligations under finance leases	**3,420**	4,135
	24,091	23,052
	24,122	23,061

17 FINANCIAL ASSETS AT FAIR VALUE

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

	2019 ¥ million	2018 ¥ million
Unlisted securities	**100**	52
Less: non-current portion	**(100)**	(52)
Current portion	**–**	–

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

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

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

	2019 ¥ million	2018 ¥ million
Listed securities		
— Equity securities	**781**	823
Unlisted securities		
— Equity securities	**130**	130
	911	953

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.

18 DERIVATIVE FINANCIAL INSTRUMENTS

	2019 ¥ million	2018 ¥ million
Interest rate swaps	**31**	9
Less: non-current portion	**(27)**	(8)
Current portion	**4**	1

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 2019, the notional amount of the outstanding interest rate swaps agreement with the banks amounted to ¥2,000 million (2018: ¥900 million).

Notes to the Consolidated Financial Statements

19 INVENTORIES

	2019 ¥ million	2018 ¥ million
Supplies	**109**	57

The cost of inventories recognised as expenses and included in "hall operating expenses" amounted to ¥6,971 million (2018: ¥7,699 million) and "administration and other operating expenses" amounted to ¥1 million (2018: ¥1 million) for the year ended 31 March 2019.

20 TRADE RECEIVABLES

	2019 ¥ million	2018 ¥ million
Trade receivables	**53**	57
Less: provision for impairment of trade receivables	**–**	–
	53	57

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

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

As at 31 March 2019 and 2018, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	2019 ¥ million	2018 ¥ million
Less than 30 days	**52**	53
31 days to 90 days	**1**	4
	53	57

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 2019 and 2018.

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 ¥ million	2018 ¥ million
Non-current portion		
Rental and other deposits	**2,816**	2,609
Rental prepayments	**873**	1,010
Loan to an associate (Note 12)	**354**	–
Loans to other employees	**1**	1
Other prepayments and receivables	**164**	131
	4,208	3,751
Current portion		
Prepayment for prizes in operation for pachinko and pachislot halls	**298**	339
Rental prepayments	**406**	486
Loans to other employees	**1**	1
Deposit for acquisition of a restaurant (Note)	**–**	97
Other prepayments and receivables	**315**	389
	1,020	1,312

The carrying amounts of prepayment, deposits and other receivables approximate their fair values as at 31 March 2019 and 2018.

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 ¥146 million) to the Seller. Pursuant to the announcement dated 15 June 2016, the Group terminated the Agreement with the Seller. On 10 April 2018, the Group and the Seller reached an agreement on the settlement amount of HK$7 million and the amount was fully paid on 10 May 2018. The remaining amount of HK$3 million (equivalent to approximately ¥54 million) was written off to "administrative and other operating expenses" in the consolidated statement of comprehensive income during the year ended 31 March 2018.

Notes to the Consolidated Financial Statements

22 CASH AND BANK BALANCES

	2019 ¥ million	2018 ¥ million
Non-current portion		
Bank deposits with maturity over 1 year	–	47
Current portion		
Cash on hand	**1,251**	1,113
Cash at banks	**12,670**	13,334
Short term bank deposits	**1,255**	1,147
Cash and cash equivalents	**15,176**	15,594
Bank deposits with maturity over 3 months	**43**	43
	15,219	15,637
Total cash and bank balances	**15,219**	15,684

23 SHARE CAPITAL

	Number of Share	Shares Capital ¥ million
Ordinary shares, issued and fully paid:		
At 31 March 2018, 1 April 2018 and 31 March 2019	1,195,850,460	3,000

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 2019 and 2018 were as follows:

	2019 ¥ million	2018 ¥ million
Less than 30 days	**47**	72
31–90 days	**242**	162
Over 90 days	**5**	13
	294	247

The carrying amounts of trade payables approximate their fair values as at 31 March 2019 and 2018.

26 ACCRUALS, PROVISIONS AND OTHER PAYABLES

	2019 ¥ million	2018 ¥ million
Non-current portion		
Provision for reinstatement costs	**2,054**	1,961
Provision for long service payment	**40**	39
Rental deposit receipt in advance	**102**	81
Other payables	**30**	30
	2,226	2,111
Current portion		
Accrued purchases for pachinko and pachislot machines	**269**	406
Accrued purchases for property, plant and equipment	**264**	118
Accrued staff costs	**1,072**	963
Contract liabilities:		
Vending machine rental receipt in advance	**201**	220
Unutilised balls and tokens	**1,078**	923
Other tax payable	**491**	384
Office expenses and consumables	**766**	624
Utilities payable	**49**	46
Other payables	**163**	109
	4,353	3,793

The carrying amounts of other payables approximate their fair values as at 31 March 2019 and 2018.

During the year ended 31 March 2019, revenue recognised that was included in the contract liability balances of rental receipt in advance and unutilised balls and tokens at the beginning of the year amounted to ¥138 million and ¥152 million, respectively. As at 31 March 2019, the aggregate amount of transaction price allocated to the contact liabilities that are unfulfilled was ¥1,279 million of which ¥318 million are expected to be recognised as revenue during the next reporting period.

Notes to the Consolidated Financial Statements

27 BORROWINGS

	2019 ¥ million	2018 ¥ million
Non-current portion		
Bank loans	**3,247**	2,761
Syndicated loans	**8,545**	8,093
	11,792	10,854
Current portion		
Bank loans	**1,047**	813
Syndicated loans	**3,243**	3,073
	4,290	3,886
Total borrowings	**16,082**	14,740

As at 31 March 2019 and 2018, the Group's borrowings were repayable as follows:

	2019 ¥ million	2018 ¥ million
Within 1 year	**4,290**	3,886
Between 1 and 2 years	**2,445**	2,821
Between 2 and 5 years	**5,676**	4,991
Over 5 years	**3,671**	3,042
	16,082	14,740

Notes to the Consolidated Financial Statements

27 BORROWINGS (CONTINUED)

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

	2019	2018
Bank loans	**1.91%**	0.8%
Syndicated loans	**1.0%**	1.1%

As at 31 March 2019, the borrowings under sales and leaseback arrangements with a third party lessor amounted to ¥2,686 million (2018: ¥1,674 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 improvement, the Group has an option to renew for a further term of 1 year on the 20th of the preceding month before the end of each lease term at no cost.

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

	2019 ¥ million	2018 ¥ million
Property, plant and equipment	**11,050**	8,340
Investment properties	**650**	662
Deposits and other receivables	**180**	582
	11,880	9,584

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

	2019 ¥ million	2018 ¥ million
Floating rate		
— Expiring over 1 year	**995**	1,663

The carrying amounts of borrowings of the Group approximate their fair values as at 31 March 2019 and 2018.

Notes to the Consolidated Financial Statements

28 OBLIGATIONS UNDER FINANCE LEASES

	2019 ¥ million	2018 ¥ million
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	**833**	1,041
Later than 1 year and no later than 2 years	**564**	817
Later than 2 year and no later than 5 years	**157**	1,206
Later than 5 years	**2,642**	1,985
	4,196	5,049
Future finance charges on finance leases	**(776)**	(914)
Present values of finance lease liabilities	**3,420**	4,135

The present values of finance lease liabilities are as follows:

	2019 ¥ million	2018 ¥ million
No later than 1 year	**703**	888
Later than 1 year and no later than 2 years	**451**	683
Later than 2 year and no later than 5 years	**100**	918
Later than 5 years	**2,166**	1,646
Total obligations under finance leases	**3,420**	4,135
Less: Amount included in current liabilities	**(703)**	(888)
Non-current obligations under finance leases	**2,717**	3,247

Assets arranged under finance leases represent buildings for pachinko and pachislot halls, pachinko and pachislot machines, and gaming machines for amusement arcades. The average lease term range from 1 to 20 years with effective interest rate range from 2.45% to 4.42% per annum as at 31 March 2019 (2018: 3.22% to 4.42% per annum) for pachinko and pachislot business; and from 2 to 3 years with effective interest rate range from 8.06% to 20.0% for amusement arcade business. 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:

	2019 ¥ million	2018 ¥ million
Deferred income tax assets		
— to be recovered after more than 12 months	**1,235**	970
— to be recovered within 12 months	**1,512**	1,881
	2,747	2,851
Deferred income tax liabilities		
— to be recovered after more than 12 months	**(1,159)**	(1,286)
Deferred income tax assets, net	**1,588**	1,565

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

	2019 ¥ million	2018 ¥ million
At 1 April	**1,565**	1,656
Credited to the consolidated statement of other comprehensive income	**20**	3
Credited/(charged) to profit or loss	**3**	(94)
Deferred income tax assets	**1,588**	1,565

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 2019 and 2018, 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 2017	1,857	494	13	557	2,921
(Charged)/credited to profit or loss	(263)	33	14	146	(70)
Balances at 31 March 2018 and 1 April 2018	1,594	527	27	703	2,851
(Charged)/credited to profit or loss	(93)	18	8	(37)	(104)
Balance at 31 March 2019	1,501	545	35	666	2,747

Deferred income tax liabilities

	Property, plant and equipment ¥ million	Fair value through other comprehensive income ¥ million	Total ¥ million
Balance at 1 April 2017	(1,187)	(78)	(1,265)
Charged to profit or loss	(24)	–	(24)
Credited to other comprehensive income	–	3	3
Balances at 31 March 2018 and 1 April 2018	(1,211)	(75)	(1,286)
Credited to profit or loss	107	–	107
Credited to other comprehensive income	–	20	20
Balance at 31 March 2019	(1,104)	(55)	(1,159)

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 2019, the Group has unrecognised tax losses of approximately ¥220 million (2018: ¥38 million) to carry forward for offsetting against future taxable income. These tax losses have no expiry dates except for the tax losses of ¥87 million (2018: nil) which will be carried forward for 9 years.

Other than the above, there was no material unprovided deferred income tax as at 31 March 2019 and 2018.

Notes to the Consolidated Financial Statements

30 DIVIDENDS

During the year ended 31 March 2019, the Company paid interim dividend of ¥96 million (¥0.08 per common share) and final dividend of ¥143 million (¥0.12 per common share) to its shareholders in respect of the year ended 31 March 2019 and 2018, respectively.

The board of directors of the Company declared a final dividend of ¥0.07 per common share totalling ¥84 million in respect of the year ended 31 March 2019. These consolidated financial statements do not reflect this dividend payable.

31 CASH GENERATED FROM OPERATIONS

	2019 ¥ million	2018 ¥ million
Profit before income tax	**1,093**	213
Adjustments for:		
Depreciation of property, plant and equipment	**2,532**	2,315
Depreciation of investment properties	**19**	19
Amortisation of intangible assets	**81**	49
Loss/(gain) on disposal of property, plant and equipment	**54**	(215)
Loss on disposal of investment property	**7**	–
Write off of property, plant and equipment	**–**	38
Impairment loss of property, plant and equipment	**195**	–
Write off of other receivables	**–**	54
Finance costs, net	**455**	510
Dividend income	**(55)**	(57)
Loss/(gain) on fair value for derivative financial instruments	**23**	(3)
Loss on fair value for financial assets at fair value through profit or loss	**2**	2
Share of loss of an associate	**5**	–
Release of obligation under finance lease upon closure of halls	**(133)**	–
Changes in working capital:		
Inventories	**(51)**	(17)
Trade receivables	**5**	31
Prepayments, deposits and other receivables	**370**	595
Trade payables	**47**	124
Accruals, provisions and other payables	**433**	139
Cash generated from operations	**5,082**	3,797

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

	2019 ¥ million	2018 ¥ million
Net book amount	**58**	324
(Loss)/gain on disposal of property, plant and equipment	**(54)**	215
Proceeds from disposal of property, plant and equipment	**4**	539

31 CASH GENERATED FROM OPERATIONS (CONTINUED)

Major non-cash transactions:

For the year ended 31 March 2019, certain finance lease obligations amounting to ¥138 million (2018: ¥111 million) were settled through reduction of rental prepayments.

For the year ended 31 March 2019, certain property, plant and equipment amounting to ¥259 million (2018: ¥45 million) were settled through finance lease obligations.

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the year ended 31 March 2019 and 2018 presented.

	2019 ¥ million	2018 ¥ million
Long-term bank deposits	–	47
Cash and cash equivalents	15,176	15,594
Bank deposits with maturity over 3 months	43	43
Obligation under finance leases — non current	(2,717)	(3,247)
Obligation under finance leases — current	(703)	(888)
Borrowings — non current	(11,792)	(10,854)
Borrowings — current	(4,290)	(3,886)
Net debt	(4,283)	(3,191)

	Other assets			Liabilities from financing activities				
	Long-term bank deposits ¥ million	Cash and cash equivalents ¥ million	Bank deposits with maturity over 3 months ¥ million	Obligation under finance leases-non current ¥ million	Obligation under finance leases — current ¥ million	Borrowings — non current ¥ million	Borrowings — current ¥ million	Total ¥ million
Net debt as at 1 April 2017	35	13,404	252	(4,048)	(1,160)	(8,656)	(2,394)	(2,567)
Cash flows	12	2,194	(209)	947	338	(2,773)	(490)	19
Foreign exchange adjustments	–	(4)	–	–	–	–	–	(4)
Other non-cash movements	–	–	–	(146)	(66)	575	(1,002)	(639)
Net debt as at 31 March 2018 and 1 April 2018	47	15,594	43	(3,247)	(888)	(10,854)	(3,886)	(3,191)
Cash flows	(47)	(415)	–	784	197	(912)	(314)	(707)
Foreign exchange adjustments	–	(3)	–	–	–	–	–	(3)
Other non-cash movements	–	–	–	(254)	(12)	(26)	(90)	(382)
Net debt as at 31 March 2019	–	15,176	43	(2,717)	(703)	(11,792)	(4,290)	(4,283)

Notes to the Consolidated Financial Statements

32 CONTINGENCIES

As at 31 March 2019, the Group did not have any significant contingent liabilities (2018: Same).

33 COMMITMENTS

(a) Capital commitments

The outstanding commitments not provided for in the consolidated financial statements as at 31 March 2019 and 2018 are as follows:

	2019 **¥ million**	2018 ¥ million
Contracted but not provided for		
Purchase of property, plant and equipment	**19**	62

(b) Operating lease commitments

(i) As a lessee

As at 31 March 2019, 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:

	2019 **¥ million**	2018 ¥ million
No later than one year	**1,298**	1,251
Later than one year and no later than five years	**4,333**	4,585
Over five years	**4,545**	4,874
	10,176	10,710

(ii) As a lessor

As at 31 March 2019 and 2018, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	2019 **¥ million**	2018 ¥ million
No later than one year	**40**	43

34 BUSINESS COMBINATION

Acquisition of Dream Games Singapore Pte. Ltd.

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

Net cash outflow arising from acquisition of subsidiaries amounted to ¥1,753 million.

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

	As at date of acquisition ¥ million
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	117
Prepayments, deposits and other receivables	236
Inventories	21
Property, plant and equipment	579
Deferred tax assets	15
Intangible assets	408
Provision and other payables	(170)
Borrowings and obligation under finance leases	(351)
Deferred tax liabilities	(89)
Current income tax liabilities	(5)
Total identifiable net assets	761
Goodwill	1,109
Net assets acquired	1,870
Purchase consideration settled in cash	1,870

The fair value is being valued by Roma Group Limited, an independent qualified professional valuer, not connected to the Group.

The goodwill arose in the acquisition of Dream Games included amounts in relation to the benefit of expected synergies, revenue growth, future business development and expansion in Asian markets. None of goodwill recognised is expected to be deductible for income tax purpose.

Acquisition related costs of Dream Games of ¥24 million have been charged to "administrative and other operating expenses" in the consolidated statement of comprehensive income for the year ended 31 March 2018.

35 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 consolidated financial statements, 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 2019 and 2018:

	2019 **¥ million**	2018 ¥ million
Service fee expenses		
Niraku USA, Inc.	**32**	35

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:

	2019 **¥ million**	2018 ¥ million
Directors' fees	**250**	232
Basic salaries, allowances and other benefits in kind	**65**	26
Employee's contribution to pension scheme	**4**	3
	319	261

Notes to the Consolidated Financial Statements

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	At 31 March 2019 ¥ million	2018 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment		**9**	4
Intangible assets		**6**	12
Deposits and other receivables		**5**	6
Loans to subsidiaries		**6,756**	5,366
Investments in subsidiaries		**18,206**	18,206
Financial assets at fair value through profit or loss		**100**	–
Deferred income tax assets		**33**	139
		25,115	23,733
Current assets			
Prepayments, deposits and other receivables		**535**	481
Loans to subsidiaries		**2,906**	2,733
Bank deposits with maturity over 3 months		**570**	420
Cash and cash equivalents		**4,460**	4,343
Current income tax recoverable		**–**	–
		8,471	7,977
Total assets		**33,586**	31,710
EQUITY			
Share capital		**3,000**	3,000
Reserves	(a)	**17,829**	17,819
Total equity		**20,829**	20,819
LIABILITIES			
Non-current liabilities			
Borrowings		**9,142**	7,792
Other payables		**30**	25
Derivative financial instruments		**27**	8
		9,199	7,825

Notes to the Consolidated Financial Statements

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

	Note	At 31 March 2019 ¥ million	2018 ¥ million
Current liabilities			
Borrowings		**3,466**	3,014
Other payables		**72**	45
Derivative financial instruments		**4**	1
Current income tax liabilities		**16**	6
		3,558	3,066
Total liabilities		**12,757**	10,891
Total equity and liabilities		**33,586**	31,710

Note (a) Reserves movement of the Company

	Share capital ¥ million	Capital surplus ¥ million	Retained earnings ¥ million	Total ¥ million
Balances at 1 April 2017	3,000	13,954	3,112	20,066
Profit for the year	–	–	789	789
Final dividend relating to 2017	–	–	(36)	(36)
Balance at 31 March 2018 and 1 April 2018	3,000	13,954	3,865	20,819
Profit for the year	–	–	249	249
Final dividend related to 2018	–	–	(143)	(143)
Interim dividend related to 2019	–	–	(96)	(96)
Balances at 31 March 2019	3,000	13,954	3,875	20,829

Notes to the Consolidated Financial Statements

37 BENEFITS AND INTERESTS OF DIRECTORS

Directors and chief executive's emoluments

The remuneration of every director of the Company paid/payable by the Group for the year ended 31 March 2019 and 2018 is set out below:

For the year ended 31 March 2019

Name	Fee ¥ million	Salaries, allowances and other benefits ¥ million	Defined contribution pension costs ¥ million	Total ¥ million
Director				
Hisanori Taniguchi (also the Chief Executive)	151	–	1	152
Non-executive director				
Hiroshi Bannai	4	–	–	4
Independent non-executive directors				
Hiroaki Morita	4	–	–	4
Norio Nakayama (Note)	2	–	–	2
Michio Minakata	6	–	–	6
Yoshihiro Koizumi	4	–	–	4
	171	–	1	172

Note: Mr. Norio Nakayama resigned as independent non-executive director on 31 October 2018.

Notes to the Consolidated Financial Statements

37 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

Directors and chief executive's emoluments (Continued)

For the year ended 31 March 2018

Name	Fee ¥ million	Salaries, allowances and other benefits ¥ million	Defined contribution pension costs ¥ million	Total ¥ million
Director				
Hisanori Taniguchi (also the Chief Executive)	139	–	1	140
Non-executive director				
Hiroshi Bannai	3	–	–	3
Independent non-executive directors				
Hiroaki Morita	4	–	–	4
Norio Nakayama	4	–	–	4
Masaharu Togo (Note)	1	–	–	1
Michio Minakata	6	–	–	6
Yoshihiro Koizumi	4	–	–	4
	161	–	1	162

Note: Mr. Masaharu Togo was retired as independent non-executive director on 27 June 2017.

* Insignificant amount less than ¥1 million

37 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

Directors and chief executive's emoluments (Continued)

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 2019 and 2018.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 March 2019 and 2018.

During the year ended 31 March 2019, the Group does not pay consideration to any third parties for making available directors' services (2018: Nil).

As at 31 March 2019, there is no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and connected entities with such directors (2018: Nil).

Save as disclosed in Note 35, 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 (2018: Nil).

38 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 March 2019 and 2018:

Name	Country and date of incorporation	Principal activities	Type of legal status	Issued and paid up capital	Effective interest held as at 31 March	
					2019	2018
Directly held						
Niraku Corporation	Japan, 27 August 1969	Pachinko and pachislot hall operations	Limited liability company	¥257 million	100%	100%
NGCH Hong Kong Limited	Hong Kong, 4 May 2017	Investment holding	Limited liability company	HK$700,000	100%	100%
Dream Games Singapore Pte. Ltd.	Singapore, 3 November 2014	Wholesale of computer games, sporting and other recreational goods	Limited liability company	US$2,912,412	100%	100%
Indirectly held						
Nexia Inc.	Japan, 19 June 2009	Property investment	Limited liability company	¥30 million	100%	100%
Niraku Merrist Corporation	Japan, 24 February 2010	Provision of cleaning service	Limited liability company	¥5 million	100%	100%
NPJ Hong Kong Limited	Hong Kong, 10 May 2017	Investment holding	Limited liability company	HK$700,000	51%	51%
Dream Games (Japan) Co., Ltd.	Japan, 9 April 2013	Investment holding	Limited liability company	¥100 million	100%	100%
Dream Games Vietnam Co., Ltd.	Socialist Republic of Vietnam, 10 April 2013	Amusement centre operation	Limited liability company	VND35,145,000,000 (equivalents to US$1,650,000)	100%	100%
Dream Games Cambodia Co., Ltd.	Cambodia, 1 February 2011	Amusement centre operation	Limited liability company	9,100,000,000 Riels (equivalents to US$2,275,000)	100%	100%
NPJ China Yokocho Co., Ltd.	China, 31 January 2018	Restaurant operation	Limited liability company	US$2,100,000	51%	51%

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