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

年報 2020 ANNUAL REPORT

* For identification purpose only 僅供識別

Contents

Corporate Profile

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

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

NIRAKU has a strong pachinko hall network with 53 halls at present, stretching from Tokyo Metropolitan Area to Northeast Honshu, equipped with over 27,900 pachinko and pachislot machines serving customers in ten prefectures in Japan.

Corporate Information and Information for Investors

CORPORATE INFORMATION

Executive Directors	Mr. Hisanori TANIGUCHI *(Chairman)* Mr. Akinori OHISHI Mr. Masataka WATANABE
Non-Executive Director	Mr. Hiroshi BANNAI
Independent Non-Executive Directors	Mr. Michio MINAKATA Mr. Yoshihiro KOIZUMI Mr. Kuraji KUTSUWATA
Audit Committee	Mr. Michio MINAKATA *(Committee Chairman)* Mr. Hiroshi BANNAI Mr. Yoshihiro KOIZUMI
Remuneration Committee	Mr. Yoshihiro KOIZUMI *(Committee Chairman)* Mr. Michio MINAKATA 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 *Certified Public Accountants* Registered Public Interest Entity Auditor
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 2020, 2019, 2018, 2017 and 2016.

	For the year ended 31 March						
	2020		2019		2018	2017	2016
	¥ million	**HK$ million**	¥ million	HK$ million	¥ million	¥ million	¥ million
Gross pay-ins	**139,053**	**9,911**	141,731	10,023	138,493	143,130	158,095
Gross pay-outs	**(114,046)**	**(8,129)**	(115,850)	(8,193)	(113,230)	(114,734)	(127,900)
Revenue from pachinko and pachislot business	**25,007**	**1,782**	25,881	1,830	25,263	28,396	30,195
Revenue from amusement arcade business	**1,663**	**119**	1,535	109	417	N/A	N/A
Other revenue	**1,376**	**98**	909	64	874	784	800
Revenue	**28,046**	**1,999**	28,325	2,003	26,554	29,180	30,995
Hall operating expenses	**(21,910)**	**(1,562)**	(22,875)	(1,618)	(22,640)	(24,110)	(25,207)
Administrative and other operating expenses	**(5,655)**	**(403)**	(4,502)	(318)	(3,918)	(4,391)	(4,815)
Profit before income tax	**581**	**41**	1,093	77	213	902	633
Profit/(loss) attributable to the shareholders of the Company	**179**	**13**	610	43	(15)	492	181
Earnings/(loss) per share (expressed in Japanese Yen or Hong Kong dollar)	**0.150**	**0.011**	0.510	0.036	(0.013)	0.41	0.15
Overall revenue margin	**18.0%**	**–**	18.3%	–	18.2%	19.8%	19.1%
Net (loss)/profit margin	**(0.50%)**	**–**	1.9%	–	(0.2%)	1.7%	0.6%

Financial and Operational Highlights

	As at 31 March						
	2020		2019		2018	2017	2016
	¥ million	HK$ million	¥ million	HK$ million	¥ million	¥ million	¥ million
Current assets	**16,092**	**1,147**	16,401	1,160	17,363	15,276	15,597
Current liabilities	**11,179**	**797**	9,770	691	8,815	7,210	8,287
Net current assets	**4,913**	**350**	6,631	469	8,548	8,066	7,310
Total assets	**81,158**	**5,785**	54,043	3,822	52,171	49,413	52,257
Total assets less current liabilities	**69,979**	**4,988**	44,273	3,131	43,356	42,203	43,970
Gearing ratio	**61.2%**	**–**	70.9%	–	69.6%	59.1%	72.4%

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. ¥14.03 to HK$1.00, the exchange rate prevailing on 31 March 2020 (i.e. the last business day in March 2020);

2. ¥14.14 to HK$1.00, the exchange rate prevailing on 29 March 2019 (i.e. the last business day in March 2019).

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

Based on our corporate philosophy to make life "Happy, Enjoyable, and Fun", our Group aims to create a community that brings people together and brings people together with the people. In our main core pachinko business, we strive for quality improvement of operation services based on the perspective of our customers in order to deliver the greatest excitement and enjoyment. As a result, we were able to gain a higher share than last year even the pachinko market is shrinking. On the other hand, gross pay-ins fell by 1.9% compared to prior year due to the impact of increase in consumption tax from 8% to 10%, changes in specification of machines in accordance with the new regulations, and the impact of temporary closure of stores due to localized damage caused by Typhoon No. 19 in October 2019.

We acquired the company that is operating amusement arcade business in Vietnam and Cambodia in November 2017. We made investments to take an advantage of the growth in these countries, including opening of two new "Kids Playground" format stores. The main target of "Kids Playground" is children at or under 12 years old and their parents. As a result, operating revenue rose by 8.3% year-on-year.

As the COVID-19 has spread globally from the beginning of 2020, it is expected that our way of living will be coexistent with the virus under circumstances after this pandemic. And we imagine that people's needs, values and behavior will significantly change after COVID-19 pandemic. However, we look at this shift into a different lifestyle as an opportunity and we believe that the needs that people seek for fulfilling life of leisure, entertainment and amusement will never change as long as people want a better life than one has now. We have confidence to address the need for what people seek, because we have accumulated invaluable experience in this industry since foundation, which will be advantageous in business development. We will strive to build existence value in community with our strength by coping appropriately with social changes, and by doing good in a community.

We will continue to concentrate to build a strong base of operations and make effort to gain customer satisfaction, which allow us to maintain and improve the competitiveness. In the medium-to-long term, we will continue to seek the entertainment and hospitality in amusement and food businesses, and we will realize the basic philosophy of "we provide happy time for people by making the world cheerful, fun, and entertaining" by developing this business portfolio.

Pachinko business

In the pachinko industry, the sign of recovery is still unclear. It is expected that many operators will have to withdraw from the market, especially those with less resilience to market change caused by the negative effect of COVID-19 amidst and after the pandemic. Even in these business environments, we strive to take step further to provide customers with the best possible services and the best assortment of machines through hearing the voice from each customer. Furthermore, we will continue to improve the business structure in order to provide best service quality. We believe that we will be able to increase the market share even if these difficult circumstances, decline in gross pay-in caused by the change of the machine regulations, is expected to remain unchanged.

During the year, we acquired a property that has a capacity of more than 1,000 machines in our main market Koriyama city in Fukushima Prefecture in order to strengthen our base and achieve competitive advantage. We are aiming to commence the business in the mid-2020.

Chairman's Statement

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.

Dream Games' outlets mainly focused in popular shopping malls, like Aeon Mall, with strong ability to attract customers. During the year, Dream Games opened four new outlets in Vietnam, among which, two are under the mode of "kids playgrounds" targeting children aged 12 and under in order to meet the diversified needs of leisure. As at 31 March 2020, Dream Games operated eleven outlets in Vietnam, including four Kids' Playground; and two outlets in Cambodia, with a total of thirteen outlets.

Dream Games will continue to strive to raise its awareness on the expansion trend in the leisure market in both countries and build up on the existing business.

Food business

Including the new "LIZARRAN" restaurant that opened in Tokyo in October 2019, we currently have four restaurants arranged under a franchise agreement with Comess Group, a Spain-based restaurant developer that operates many restaurants primarily in Europe.

In July 2019, we opened a food mall named "YOKOCHO" which consists of famous Japanese restaurants in Shenzhen Upper Hills, an urban complex centre in Shenzhen, China. YOKOCHO business is temporarily suspended due to COVID-19 pandemic, and will resume its business at an appropriate time.

eSports business

In November 2018, we stepped in the eSports business through a 40% equity investment in a company named Yes! E-Sports Asia Holdings Limited (YEAH), which is jointly established with a Hong Kong partner. During the year, YEAH actively organized various promotional events with the aim of raising awareness, establishing a business model, and working to increase the value of the YEAH brand.

We will build a unique "eSports + entertainment" platform and plan to provide new entertainment in the future.

Impact of COVID-19 pandemic and management initiatives

In response to the COVID-19 pandemic, the Japanese government declared a state of emergency on 7 April 2020, and each local government issued a request to specific industries, including the pachinko hall business, asking them to refrain from undertaking sales activities. In response to this request, the Group temporarily suspended all 53 pachinko outlets on 25 April 2020, and gradually started resuming operations from 7 May 2020.

In addition, with the request from Vietnamese government, 11 outlets of the Dream Games business in Vietnam were under temporarily closure on 26 March 2020. These outlets have been gradually reopened since 8 May 2020, while the two outlets in Cambodia which were closed since 14 May 2020 were still under suspension as at date of this annual report.

The temporary closures of domestic and overseas operations have a significant impact on the Group's financial position and business activities. Despite our businesses resumption since 7 May 2020, the uncertainties surrounding the business environment as a result of the outbreak of the COVID-19 has a significant impact on our future business performance and financial position.

In preparation for future uncertainties, we will maintain a healthy cash flow and financial position and has sufficient cash to meet its business needs. In addition, we plan to move ahead with structural reforms.

The year ahead continues to be challenging and severe as the movement of people and supply chains are significantly interrupted as a result of the COVID-19 pandemic. In light of the adverse impact to the business performance, we will adopt prudent measures and exercise our strength of resilience to deliver a stable performance and ensure business continuity.

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 a decrease of ¥874 million, or 3.4%, from ¥25,881 million in 2019 to ¥25,007 million in 2020. The decline was mainly attributable to the (i) closure of two loss-making halls during the year ended 31 March 2019 and (ii) introduction of new gaming regulation requiring all pachinko hall operators to replace the higher jackpot size pachinko and pachislot machines with new lower jackpot size machines which chased away the hall traffic as these new machines are less popular among the players.

Gross pay-ins

For the year ended 31 March 2020, the Group's gross pay-ins from pachinko and pachislot business amounted to ¥139,053 million, comprising revenue from suburban halls of ¥132,706 million (2019: ¥135,064 million) and urban halls of ¥6,347 million (2019: ¥6,667 million), representing a drop of ¥2,358 million, or 1.7%, and drop of ¥320 million, or 4.8%, respectively, as compared to last year. The overall decrease was mainly generated from closure of two pachinko halls in 2019 as mentioned above.

Gross pay-out

Gross pay-out decreased from ¥115,850 million in 2019 to ¥114,046 million in 2020, a drop of ¥1,804 million, or 1.6%, which mirrored the fall of pay-out ratio to improve revenue.

Revenue margin

The revenue margin in current year decreased by 0.3% from 18.3% in 2019 to 18.0% in 2020. The decline in revenue margin was due to slight increase in pay-out ratio to improve customer visits.

Revenue from Amusement Arcade Business

Revenue from amusement arcade business increased from ¥1,535 million in 2019 to ¥1,663 million in current year. The amount comprised revenue derived from Vietnam and Cambodia amounting to ¥1,292 million and ¥371 million, respectively (2019: ¥1,274 million and ¥261 million, respectively). The increase in revenue was attributable to opening of a new amusement centre in January 2019 and four more centres during the year ended 31 March 2020 which generated additional income of ¥15 million and ¥56 million, respectively, together with continuous growth in each game centre.

Other revenue

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

Vending machines income amounted to ¥480 million in 2020. The decrease of ¥27 million as compared to ¥507 million in 2019 was resulted from decrease in number of vending machines.

Revenue from hotel operations amounted to ¥143 million with an average occupancy rate of 66.5%. Income derived from hotel operation achieved an increase of 8.3% as a result of rise in occupancy rate.

Revenue from restaurant increased from ¥270 million in 2019 to ¥753 million in 2020. The hike was due to the opening of one Lizarran restaurant, two Komeda Cafés in pachinko halls close to the 2019 financial year end and commencement of YOKOCHO business in July 2019 which generated additional revenue of ¥26 million, ¥80 million and ¥304 million, respectively.

Management Discussion and Analysis

Hall operating expenses

Hall operating expenses decreased by ¥965 million, or 4.2%, from ¥22,875 million in 2019 to ¥21,910 million in current year. Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and depreciation expenses, amounting to ¥6,692 million, ¥5,542 million and ¥4,384 million, respectively, in 2020 (2019: ¥6,971 million, ¥5,510 million and ¥2,902 million, respectively).

The decline in hall operating expenses was mainly resulted from drop in pachinko and pachislot machine expenses netted with the effect of adoption of IFRS 16 Leases which led to an increase in depreciation expense and corresponding drop in rental expenses.

Administrative and other operating expenses

Administrative and other operating expenses increased by ¥1,153 million, or 25.6% from ¥4,502 million in 2019 to ¥5,655 million in current year. The increase in expenses was due to (i) increase in staff costs subsequent to opening of YOKOCHO restaurants in China which requires employees to fill up different posts, (ii) increase in provision for impairment loss of ¥687 million, and (iii) increase in depreciation expense and corresponding drop in rental expenses as a result of adoption of IFRS 16 Leases.

Finance costs

Finance costs, net recorded a surge of ¥919 million, or 202.0%, from ¥455 million in 2019 to ¥1,374 million in current year. The drastic increase was resulted from the adoption of IFRS 16 Leases which caused a significant amount of interest expenses from lease liabilities being recognised in current year.

Profit attributable to owners of the Company, basic earnings per share and dividend

Profit attributable to shareholders of the Company of ¥179 million was recorded in current year, as compared to ¥610 million in 2019. The decrease was mainly due to increase in provision for impairment loss during the year.

Basic earnings per share was ¥0.150 (2019: ¥0.510). The board (the “Board”) of directors (the “Directors”) of the Company has resolved not to declare a final dividend for the year ended 31 March 2020 (2019: ¥0.07 per share).

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.

Management Discussion and Analysis

The table below sets forth the information regarding the cash and cash equivalents, bank deposits, bank borrowings, obligations under finance leases, working capital, total equity and gearing ratio of the Group as at 31 March 2020 and 2019, and operating cash flows before movements in working capital of the Group for the years ended 31 March 2020 and 2019, respectively:

	As at 31 March	
	2020	2019
	¥ million	¥ million
Cash and cash equivalents	**14,128**	15,176
Bank deposits	**750**	43
	14,878	15,219
Bank loans	**4,792**	4,294
Syndicated loans	**8,294**	11,788
Lease liabilities (Note 1)	**2,701**	3,420
	15,787	19,502
Working capital (Note 2)	**4,913**	6,631
Total equity	**25,799**	27,511
Gearing ratio	**61.2%**	70.9%

Note 1: The balances only include leases under hire purchase arrangement.

Note 2: Working capital being current assets less current liabilities.

	For the year ended 31 March	
	2020	2019
	¥ million	¥ million
Operating cash flows before movements in working capital	**7,122**	4,278

Net current assets of the Group totalled ¥4,913 million as at 31 March 2020 (31 March 2019: ¥6,631 million), and current ratio was 1.44 as at 31 March 2020 (31 March 2019: 1.68). As at 31 March 2020, there were cash and cash equivalents of ¥14,128 million (31 March 2019: ¥15,176 million), in which ¥12,854 million was denominated in Japanese Yen, ¥856 million was denominated in United States dollar, ¥250 million was denominated in Hong Kong dollar and ¥168 million was denominated in other currencies. Excluding the impact on adoption of IFRS 16 Leases, the Group had total borrowings of ¥15,787 million as at 31 March 2020 (31 March 2019: ¥19,502 million). Current portion of borrowings and current portion of lease liabilities amounted to ¥3,675 million as at 31 March 2020 (31 March 2019: ¥4,993 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 31 March 2020, the total bank borrowings amounted to ¥13,086 million (31 March 2019: ¥16,082 million), with average effective interest rates on bank borrowings ranged from 1.08% to 1.80% (31 March 2019: 0.99% to 1.91%) per annum. Approximately 10.0% of bank borrowings as at 31 March 2020 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 31 March 2020, the Group had three floating to fixed interest rate swap contracts with a bank 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 2020, the gain on fair value for interest rate swap contracts amounted to ¥5 million.

The Group did not carry out any foreign currency investment and its debts were all denominated in Japanese Yen as at 31 March 2020. As the functional currencies of certain subsidiaries are different from the Company, the Group will be exposed to foreign exchange risk arising from such exposure, namely in Singapore Dollar, Vietnamese Dong, Cambodian Riel and Renminbi against Japanese Yen. The management is assessing the significance of the foreign currency exposures faced by the Group and will consider adopting appropriate measures to mitigate the risk, including but not limited to entering into currency hedges.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and lease liabilities, divided by total equity, was 61.2% as at 31 March 2020 (31 March 2019: 70.9%).

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	
	2020 **¥ million**	2019 ¥ million
Property, plant and equipment	**1,473**	5,084
Right-of-use assets	**963**	–
Investment properties	**–**	14
Intangible assets	**63**	83
	2,499	5,181

Management Discussion and Analysis

CHARGES ON ASSETS

As at 31 March 2020 and 2019, the carrying values of charged assets were as below:

	2020 ¥ million	2019 ¥ million
Property, plant and equipment	**10,475**	11,050
Investment properties	**630**	650
Deposits and other receivables	**178**	180
	11,283	11,880

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2020 and 2019.

CAPITAL COMMITMENTS

Details of the Group's capital commitments as at 31 March 2020 and 2019 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 event affecting the Company that have occurred since the end of the financial year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2020, the Group had 1,932 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 34(b) to the consolidated financial statements.

FINAL DIVIDEND

The Board has resolved not to declare a final dividend in respect of the year ended 31 March 2020 (2019: ¥0.07 per ordinary share).

Corporate Governance Report

CORPORATE GOVERNANCE

During the year ended 31 March 2020, 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 of Hong Kong Limited (the “Listing Rules”), with the exception for code provision A.2.1, which requires the roles of chairman and chief executive to be separate and should be performed by different individuals, and code provision E.1.3, which requires that notice for an annual general meeting should be sent to the shareholders at least 20 clear business days before the meeting.

Code Provision A.2.1

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

Code Provision E.1.3

Code provision E.1.3 stipulates that notice for an annual general meeting (the “AGM”) should be sent to its shareholders by the issuer at least 20 clear business days before the meeting. The AGM of the Company for the year ended 31 March 2019 was held on 27 June 2019 (the “2019 AGM”), while the notice for the 2019 AGM was despatched on 5 June 2019. The above arrangement complied with the articles of incorporation of the Company (the “Articles of Incorporation”) prepared pursuant to the Companies Act in respect of the minimum notice period of 21 calendar days (the date of sending and the date of the meeting shall not be included within this period) for AGM but the notice period for the 2019 AGM was less than 20 clear business days before the 2019 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 2019 for the financial year ended 31 March 2019).

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

BOARD OF DIRECTORS

The Board oversees the management, businesses, strategic directions and financial performance of the Group. The Board currently comprises a total of seven Directors, with three executive Directors, namely Mr. Hisanori TANIGUCHI, Mr. Akinori OHISHI and Mr. Masataka WATANABE; one non-executive Director, namely Mr. Hiroshi BANNAI, and three independent non-executive Directors, namely Mr. Michio MINAKATA, Mr. Yoshihiro KOIZUMI and Mr. Kuraji KUTSUWATA.

Corporate Governance Report

(a) 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.

(b) 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.

(c) Appointment and Re-election of Directors

The Board is empowered under the Articles of Incorporation to appoint any person, as a Director, either to fill a casual vacancy or to be an additional member of the Board. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and exercise reasonable care would be recommended to the Board for selection.

Appointments are first considered by the Nomination Committee in accordance with its terms of reference under Nomination Policy and Board Diversity Policy. Recommendations of the Nomination Committee are then put forth to the Board for decision. In accordance with the Articles of Incorporation, all Directors shall retire at the next AGM but are eligible for re-election. Each Director was appointed by a written service contract setting out the key terms and conditions of his/her appointment. The appointment of independent non-executive Directors follows the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules.

Corporate Governance Report

Chairman and Chief Executive Officer

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

Independent Non-Executive Directors

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

The biographical details of the Chairman and the Independent Non-Executive Directors are set out on page 23 and pages 24 to 25, respectively, of this annual report.

Pursuant to the code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The Board has adopted the board diversity policy 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 7 male Directors with different age, length of service and diversity perspectives, which have been disclosed in biographical information shown in "Profile of Directors and Senior Management" on pages 23 to 25 of this annual report. 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.

Corporate Governance Report

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 2020 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 2020 and interim financial statements for the six months ended 30 September 2019 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. Yoshihiro KOIZUMI (小泉義広) 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. Yoshihiro KOIZUMI (小泉義広) and Mr. Michio MINAKATA (南方美千雄), and an executive Director, namely Mr. Hisanori TANIGUCHI (谷口久徳). It is currently chaired by Mr. Yoshihiro KOIZUMI (小泉義広), an independent non-executive Director. The Remuneration Committee held 5 meetings during the year ended 31 March 2020 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 2020, 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	7
¥10,000,001 to ¥20,000,000	–
¥20,000,001 to ¥30,000,000	–
¥30,000,001 to ¥100,000,000	2
¥100,000,001 to ¥160,000,000	1

Nomination Committee

The Company established the Nomination Committee on 25 June 2014 with specific written terms of reference. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, 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 2020 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 in accordance with the Articles of Incorporation. At the Company's 2019 AGM, five of the Directors retired from office 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' re-election plan to ensure that every Director will retire every year at an AGM.

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 2020				
Name of Directors	General Meeting	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
Mr. Hisanori TANIGUCHI (谷口久徳)	1/1	15/15	–	5/5	5/5
Mr. Akinori OHISHI (大石明徳) Note	–	11/11	–	–	–
Mr. Masataka WATANABE (渡辺将敬) Note	–	11/11	–	–	–
Mr. Hiroshi BANNAI (坂内弘)	1/1	15/15	14/14	–	–
Mr. Hiroaki MORITA (森田弘昭) Note	1/1	4/11	3/10	4/4	–
Mr. Michio MINAKATA (南方美千雄)	1/1	15/15	14/14	1/1	5/5
Mr. Yoshihiro KOIZUMI (小泉義広)	1/1	15/15	4/4	5/5	5/5
Mr. Kuraji KUTSUWATA (轡田倉治) Note	–	11/11	–	–	–

Note:

- Mr. Akinori OHISHI and Mr. Masataka WATANABE were appointed as executive Directors on 27 June 2019.
- Mr. Kuraji KUTSUWATA was appointed as independent non-executive Director on 27 June 2019.
- Mr. Hiroaki MORITA resigned as the independent non-executive Director on 30 November 2019.

There were 15 meetings of the Board held during the year ended 31 March 2020.

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

Induction and Continuous Professional Development

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

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All Directors participated in continuous professional development to develop and refresh their knowledge and skills. The Company's external lawyers had facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a listed company director. Directors including Mr. Hisanori TANIGUCHI, Mr. Akinori OHISHI, Mr. Masataka WATANABE, Mr. Hiroshi BANNAI, Mr. Hiroaki MORITA, Mr. Michio MINAKATA, Mr. Yoshihiro KOIZUMI and Mr. Kuraji KUTSUWATA 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.

AUDITOR'S REMUNERATION

During the year ended 31 March 2020, the total fee in relation to the annual audit of the Group amounted to ¥129 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:

	2020 ¥ million
Types of services	
Statutory audit	**115**
Non-audit services (Note)	**14**
Total	**129**

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 2020, 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 2020.

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.

Rights 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 to 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, to 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 AGM 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.

Corporate Governance Report

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, joint 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 is 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 follows:

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 reports 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.

Corporate Governance Report

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), aged 57, 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 37 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").

EXECUTIVE DIRECTORS

Mr. Akinori OHISHI (大石明德), aged 55, worked at Sumisho Ekika Gas Co., Ltd* (住商液化ガス株式会社) (now Enessance Holdings Co., Ltd.* (株式会社エネサンスホールディングス)), where he was involved in general work in the management division, from 1987 to 1995, and worked at Dynam Co., Ltd.* (株式会社ダイナム), from 1995 to 1998, where he was involved in corporate planning. He then went on to serve as an executive of a venture company, then work at a consulting company and finally serve as president of a management consulting company, and he was involved in management consulting for about 10 years.

In April 2009, Mr. Ohishi joined the Group as an adviser* (顧問) of Niraku Corporation. In April 2010, Mr. Ohishi became the executive officer* (執行役員) and head of corporate planning before promoted to a director* (取締役) of Niraku Corporation in June 2012, and he is responsible for implementing corporate strategy and business strategy. Subsequently, Mr. Ohishi served as a director* (取締役) of the Company from March 2013 to June 2014, and he has served as an Executive Officer* (執行役) of the Company from June 2014 to the present.

Mr. Ohishi graduated from the College of Humanities and Sciences, Nihon University* (日本大学), in March 1987. Mr. Ohishi is well versed in the areas of business strategy and finance, and he was nominated by the Board of Directors for monitoring the business based on his experience and expertise.

Mr. Masataka WATANABE (渡辺将敬), aged 51, worked at Yamaichi Securities Co., Ltd.* (山一證券株式会社) from 1993 to 1994, where he was involved in securities, and from 1995 to 2015 he worked at Hikari Tsushin Inc.* (株式会社光通信), where he was involved in business strategy and accounting. He was appointed as a Director* (取締役) and member of the Audit Committee* (監査等委員) of Hikari Tsushin Inc.* (株式会社光通信) in June 2017, in which capacity he serves to the present. Hikari Tsushin Inc.* (株式会社光通信) is an information and telecommunications services company listed on the Tokyo Stock Exchange (stock code: 9435).

In December 2018, Mr. Watanabe joined the Group as an adviser* (特別顧問) of the Company.

Mr. Watanabe graduated from The University of Tokyo* (東京大学), Faculty of Economics, in October 1992. Mr. Watanabe is well versed in the areas of securities trading, accounting and auditing, and he was nominated by the Board of Directors to provide advice based on his experience and expertise.

Profile of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Hiroshi BANNAI (坂内弘), aged 81, 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. Michio MINAKATA (南方美千雄), aged 53, 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 65, 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.

Profile of Directors and Senior Management

Mr. Kuraji KUTSUWATA (轡田倉治), aged 78, worked at the Iwase village office* (岩瀬村役場) from 1961 to 1975 before joining food vendor “Kutsuwata Shoten” (now Kutsuwata Shoten Co., Ltd.* (有限會社くつわた商店)) in 1975. While serving as the company’s representative director* (代表取締役) from 1980 onwards, in 1985, he established Yappu Kogyo Co., Ltd.* (有限会社ヤツプ工業) an optical component assembly and processing company, and has served as its representative director* (代表取締役) to this day.

In addition, he has served as a member* (議員) of the Iwase Village Council* (岩瀬村議会) and as Chairman* (会長) of the Iwase Society of Commerce and Industry* (岩瀬村商工会), and in 2004 he became a director: (理事) of the Fukushima Federation of Societies of Commerce and Industry* (福島県商工会連合会), which oversees management support projects and regional economy promotion projects run by societies of commerce and industry in Fukushima Prefecture. From 2012 to the present he has served as Chairman* (会長) of the Federation. A society of commerce and industry is an economic organization that supports the business activities of small and medium-sized enterprises.

Mr. Kutsuwata graduated from Fukushima Prefectural Sukagawa High School* (福島県立須賀川高等学校). Mr. Kutsuwata has contributed to the development of the regional economy, and his perspective is in line with the regional management strategies that our Group is aiming for, so he has been nominated by the Board of Directors to provide advice based on his experience.

EXECUTIVE OFFICER

Mr. Hidenori MOROTA (諸田英模), aged 54, 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).

SENIOR MANAGEMENT

Mr. Tatsuo TANIGUCHI (谷口龍雄), aged 66, 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.

* *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 2020.

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 2020 is set out in Note 5 to the consolidated financial statements.

BUSINESS OVERVIEW

Year 2020 is a challenging year for the Group. Domestically, pachinko business continues to be tough due to market shrinkage; globally, the outbreak of COVID-19 posed further harm to the hospitality and entertainment industries in China and Southeast Asian countries where the business of the Group is operating.

For the year ended 31 March 2020, the Group's revenue from pachinko business amounted to ¥25,007 million (2019: ¥25,881 million) with revenue margin at 18.0% (2019: 18.3%). The decline in revenue is a sign of the market phenomenon in which pachinko hall operators are facing higher degree of difficulties in attracting new young players and retaining existing customers. The revision of gaming machine regulations, increase in consumption tax, and passage of "IR Promotion Act" further undermine the profitability of pachinko business.

In confronting with the downturn of the pachinko business, the Group had formulated strategic sales measures such as acquisition of pachinko halls from rivalries, alliance with business partners, gaming environment improvement, product configuration and customer services broadening. Approaching the financial year end of 2019, the Group acquired a pachinko hall from a third-party pachinko operator. This acquisition would increase the Group's market share in Koriyama province and its competitiveness against other pachinko operators. Moreover, close to the end of financial year 2019, the Group's second "Komeda Café" opened inside the vicinity of Iruma pachinko hall commenced its operation. The café provided a cosy place for both pachinko and non-pachinko players to enjoy drinks and light meals and was welcomed by many customers.

The amusement arcade business is the second largest revenue stream of the Group, generating ¥1,663 million (or 5.9%) of revenue income. During the third and fourth quarters of the financial year, the Group opened 4 new game centres in Vietnam, attributable to an additional revenue of ¥35 million. Seeing the year-on-year revenue growth of each individual arcade, the Group is confident that the demand for recreational and entertainment facilities in Southeast Asian countries will increase persistently; and enduring to focus on these markets through opening of new arcades remains the business strategy of the Group.

In respect of food and beverage business, the new "LIZARRAN" Spanish restaurant which opened in October 2019 in Sangen Jaya district; and the Japanese food court "YOKOCHO" commenced its operation in July 2019 in Shenzhen Upper Hills commercial building had brought a total revenue of ¥304 million to the Group. Since the outbreak of COVID-19 in January 2020, YOKOCHO business was subjected to temporary closure. The management is assessing a series of possible plans to promote the restaurant business once the operation is resumed. The management is confident of the success in this business.

More detailed business, prospects and development, and analysis of the Group's performance for the year ended 31 March 2020 are available in the sections "Chairman's Statement" on pages 6 to 7 and "Management Discussion and Analysis" on pages 8 to 12 of this annual report.

Report of the Directors

Financial Key Performance Indicators

Certain financial key performance indicators which complement and supplement the financial disclosures are set out in "Financial Review" on pages 8 to 9 and the "Consolidated Financial Statements" on pages 43 to 118 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 2020.

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 2020, the Group employed 1,507 staff for pachinko and pachislot business; and 425 staff for amusement arcade 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 2020.

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;
- uncertainty as to the impact on pachinko industry after the passage of the IR Promotion Act; and
- uncertainty as to the development of novel coronavirus.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2020 are set out in the consolidated statement of comprehensive income on page 43.

The Directors have resolved not to declare a final dividend in respect of the year ended 31 March 2020.

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 Incorporation 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.

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 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 2020 are set out in Note 24 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

During the year ended 31 March 2020, 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 2020 amounted to approximately ¥4,104 million.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2020 are set out in Note 28 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 2020 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 2020 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 Directors
Mr. Hisanori TANIGUCHI (谷口久徳)
Mr. Akinori OHISHI (大石明徳) Note
Mr. Masataka WATANABE (渡辺将敬) Note

Non-Executive Director
Mr. Hiroshi BANNAI (坂内弘)

Independent Non-Executive Directors
Mr. Hiroaki MORITA (森田弘昭) Note
Mr. Michio MINAKATA (南方美千雄)
Mr. Yoshihiro KOIZUMI (小泉義広)
Mr. Kuraji KUTSUWATA (轡田倉治) Note

Note:

- Mr. Akinori OHISHI and Mr. Masataka WATANABE were appointed as executive Directors on 27 June 2019.
- Mr. Kuraji KUTSUWATA was appointed as independent non-executive Director on 27 June 2019.
- Mr. Hiroaki MORITA resigned as the independent non-executive Director on 30 November 2019.

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 provide 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 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 2020 and 2019 for the loss of office as director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

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

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

As at 31 March 2020, the interests and short positions of the Directors and the chief executive 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)	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 2020.

Save as disclosed above, as at 31 March 2020, 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 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 2020, 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)	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%

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

Notes:

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

(2) The interests held by Mr. Masataka TANIGUCHI (谷口晶貴) shown above include: (i) 11,442,500 Shares held in his own name for his own benefit; (ii) 5,750,000 Shares held by Hokuyo Kanko Limited* (有限会社北陽観光), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Masataka TANIGUCHI (谷口晶貴); and (iii) 134,377,500 Shares held by the MT Family Trust for the benefit of his children, namely Mr. Tatsunari TANIGUCHI (谷口辰成)* (also known as Mr. CHONG Jinsong), Mr. Takanari TANIGUCHI (谷口喆成)* (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) is the spouse of our Chairman and is therefore deemed to be interested in the Shares that our Chairman is interested in under the SFO.

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

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

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

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

(10) All interests stated are long positions.

(11) There were 1,195,850,460 Shares in issue as at 31 March 2020.

Save as disclosed above, and as at 31 March 2020, 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 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", 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 ¥2 million.

CONNECTED TRANSACTIONS

The Directors confirm that during the year ended 31 March 2020, 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 2020, less than 1.0% of the Group's revenue were attributed by the Group's five largest customers; while 68.3% and 90.7% 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 2020 or any of their respective associates held any interest in any of the five largest suppliers of the Group.

REMUNERATION POLICY AND PENSION SCHEME

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

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

AUDIT COMMITTEE

The audit committee had reviewed, together with the management and external auditor, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 March 2020.

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 2020.

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.

Report of the Directors

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

Fukushima, Japan, 19 June 2020

* *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 118, which comprise:

- the consolidated statement of financial position as at 31 March 2020;
- 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 2020, 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 and right-of-use-assets.

Independent Auditor's Report

Impairment assessment of property, plant and equipment and right-of-use assets

Refer to Notes 4 (Critical accounting estimates and judgements), 13 (Property, plant and equipment) and 14 (Leases) to the consolidated financial statements for the related disclosures.

As at 31 March 2020, the Group had property, plant and equipment and right-of-use assets of ¥22,257 million and ¥32,072 million, respectively. The balances of property, plant and equipment and right-of-use assets were related to the cash-generating units ("CGUs") of each individual pachinko and pachislot hall, a pachinko and pachislot hall with hotel business, restaurants and amusement arcades.

The performance of the Group's pachinko and pachislot hall operations and other operations were impacted by keen competition and the outbreak of Coronavirus Disease 2019 (COVID-19). 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 adopted under the multiple probability-weighted scenarios approach. Based on management's assessment, provisions for impairment loss of ¥213 million and ¥463 million were recorded for property, plant and equipment and right-of-use assets, respectively, during the year ended 31 March 2020.

We focused on this area due to the significance of the carrying values of the property, plant and equipment and right-of-use assets to the Group, as well as the significant judgments and estimates involved in the determination of value-in-use calculations, including the revenue growth rates, discount rate and probabilities assigned to each scenario under the multiple probability-weighted scenarios approach.

In relation to the impairment assessments of property, plant and equipment and right-of-use assets 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 rates adopted under the multiple probability-weighted scenarios approach by comparing the rate to industry trends, the Group's historical performance and operational development;
- Assessed management's assumptions of discount rate by comparing to the cost of capital and cost of debt of comparable organisations in the industry;
- Assessed management's assumptions of the probability assigned to each scenario under the probability-weighted scenarios approach by considering relevant factors such as the Group's business development and length and severity of the impact of COVID-19 with reference to the business and industry circumstances, etc.;
- Compared the current year actual results with the prior year forecasts to consider the reasonableness of management's forecasts; including the relevant factors such as the Group's business development with reference to the business and industry circumstances 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.

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, 19 June 2020

* *For identification purpose only*

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2020

	Note	2020 ¥ million	2019 ¥ million
Revenue	5	**28,046**	28,325
Other income	6	**1,074**	551
Other gains, net	6	**400**	54
Hall operating expenses	7	**(21,910)**	(22,875)
Administrative and other operating expenses	7	**(5,655)**	(4,502)
Operating profit		**1,955**	1,553
Finance income	9	**62**	52
Finance costs	9	**(1,436)**	(507)
Finance costs, net	9	**(1,374)**	(455)
Share of results of an associate	12	**–**	(5)
Profit before income tax		**581**	1,093
Income tax expense	10	**(717)**	(549)
(Loss)/profit for the year		**(136)**	544
(Loss)/profit attributable to:			
Owners of the Company		**179**	610
Non-controlling interest		**(315)**	(66)
		(136)	544
Earnings per share for profit attributable to owners of the Company			
— Basic and diluted (expressed in Japanese Yen per share)	11	**0.15**	0.51
Other comprehensive (loss)/income			
Items that have been or may be subsequently reclassified to profit or loss			
Change in value of financial assets through other comprehensive income		**(241)**	(29)
Currency translation differences		**(45)**	99
Total comprehensive (loss)/income for the year		**(422)**	614
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(107)**	680
Non-controlling interest		**(315)**	(66)
		(422)	614

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 2020

	Note	2020 ¥ million	2019 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment	13	**22,257**	28,523
Right-of-use assets	14	**32,072**	–
Investment properties	15	**630**	650
Intangible assets	16	**1,601**	1,662
Prepayments, deposits and other receivables	22	**5,119**	4,208
Interest in an associate	12	**–**	–
Financial assets at fair value through profit or loss	18	**–**	100
Financial assets at fair value through other comprehensive income	18	**565**	911
Deferred income tax assets	29	**2,822**	1,588
		65,066	37,642
Current assets			
Inventories	20	**40**	109
Trade receivables	21	**48**	53
Prepayments, deposits and other receivables	22	**1,026**	1,020
Financial assets at fair value through profit or loss	18	**100**	–
Bank deposits with maturity over 3 months	23	**750**	43
Cash and cash equivalents	23	**14,128**	15,176
		16,092	16,401
Total assets		**81,158**	54,043

Consolidated Statement of Financial Position

As at 31 March 2020

	Note	2020 ¥ million	2019 ¥ million
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	**3,000**	3,000
Reserves	25	**23,220**	24,617
		26,220	27,617
Non-controlling interest		**(421)**	(106)
Total equity		**25,799**	27,511
LIABILITIES			
Non-current liabilities			
Borrowings	28	**9,853**	11,792
Lease liabilities	14	**32,035**	2,717
Provisions and other payables	27	**2,270**	2,226
Derivative financial instruments	19	**22**	27
		44,180	16,762
Current liabilities			
Trade payables	26	**114**	294
Borrowings	28	**3,233**	4,290
Lease liabilities	14	**2,542**	703
Accruals, provisions and other payables	27	**4,404**	4,353
Derivative financial instruments	19	**4**	4
Current income tax liabilities		**882**	126
		11,179	9,770
Total liabilities		**55,359**	26,532
Total equity and liabilities		**81,158**	54,043

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

The financial statements on pages 43 to 118 were approved by the Board of Directors on 19 June 2020 and were signed on its behalf.

Hisanori Taniguchi
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2020

	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 2018	3,000	13,954	(16,028)	107	93	26,143	(93)	27,176	(40)	27,136
Comprehensive income										
Profit/(loss) for the year	–	–	–	–	–	610	–	610	(66)	544
Other comprehensive (loss)/income										
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(29)	–	–	(29)	–	(29)
Currency translation difference	–	–	–	–	–	–	99	99	–	99
Total comprehensive (loss)/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
Balances at 1 April 2019	**3,000**	**13,954**	**(16,028)**	**107**	**64**	**26,514**	**6**	**27,617**	**(106)**	**27,511**
Adjustment on adoption of IFRS 16	**–**	**–**	**–**	**–**	**–**	**(1,086)**	**–**	**(1,086)**	**–**	**(1,086)**
At 1 April 2019 (restated)	**3,000**	**13,954**	**(16,028)**	**107**	**64**	**25,428**	**6**	**26,531**	**(106)**	**26,425**
Comprehensive income/(loss)										
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**179**	**–**	**179**	**(315)**	**(136)**
Other comprehensive loss										
Financial assets at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**(241)**	**–**	**–**	**(241)**	**–**	**(241)**
Currency translation difference	**–**	**–**	**–**	**–**	**–**	**–**	**(45)**	**(45)**	**–**	**(45)**
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**–**	**(241)**	**179**	**(45)**	**(107)**	**(315)**	**(422)**
Final dividend relating to 2019 (Note 30)	**–**	**–**	**–**	**–**	**–**	**(84)**	**–**	**(84)**	**–**	**(84)**
Interim dividend relating to 2020 (Note 30)	**–**	**–**	**–**	**–**	**–**	**(120)**	**–**	**(120)**	**–**	**(120)**
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**(204)**	**–**	**(204)**	**–**	**(204)**
Balance at 31 March 2020	**3,000**	**13,954**	**(16,028)**	**107**	**(177)**	**25,403**	**(39)**	**26,220**	**(421)**	**25,799**

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 2020

	Note	2020 ¥ million	2019 ¥ million
Cash flows from operating activities			
Cash generated from operations	31	**6,286**	5,082
Interest paid		**(197)**	(391)
Income tax paid		**(619)**	(126)
Net cash generated from operating activities		**5,470**	4,565
Cash flows from investing activities			
Payment for interest in an associate	12	**–**	(5)
Purchase of property, plant and equipment		**(1,446)**	(4,587)
Purchase of investment properties	15	**–**	(14)
Purchase of intangible assets	16	**(63)**	(83)
Proceeds from disposal of property, plant and equipment		**1,991**	4
Purchase of financial assets at fair value		**–**	(100)
Proceeds from disposal of financial assets at fair value		**–**	50
Payment of long-term loan to an associate	12	**–**	(354)
Proceeds from bank deposits with maturity over 3 months		**43**	–
Placement of bank deposits with maturity over 3 months		**(750)**	–
Proceeds from long-term bank deposits		**–**	47
Interest received		**5**	1
Dividend received		**55**	55
Net cash used in investing activities		**(165)**	(4,986)
Cash flows from financing activities			
Repayment of obligations under finance leases		**–**	(981)
Proceeds from bank borrowings		**7,294**	6,127
Repayment of bank borrowings		**(10,290)**	(4,901)
Dividends paid		**(204)**	(239)
Capital element of lease payment		**(2,011)**	–
Interest element of lease payment	9	**(1,131)**	–
Net cash (used in)/generated from financing activities		**(6,342)**	6
Net decrease in cash and cash equivalents		**(1,037)**	(415)
Cash and cash equivalents at beginning of the year		**15,176**	15,594
Exchange loss on cash and cash equivalents		**(11)**	(3)
Cash and cash equivalents at end of the year		**14,128**	15,176

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, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

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

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in pachinko and pachislot hall operations, hotel and restaurant operations in Japan; amusement arcade operations in Southeast Asian countries; and restaurant operations in China. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

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

These consolidated financial statements have been approved by the Board of Directors of the Company on 19 June 2020.

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, improvements and interpretations adopted by the Group

The Group has applied the following standards, amendments and interpretations for the first time for their annual reporting period commencing 1 April 2019:

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over income tax treatments
Amendments to IFRS 9	Prepayment features with negative compensation
Amendments to IAS 19	Plan amendment, curtailment or settlement
Amendments to IAS 28	Long-term interests in associates and joint ventures
Amendments to IFRSs	Annual improvements to IFRSs 2015–2017 cycle

The Group had to change its accounting policies as a result of adopting IFRS 16. For details, please refer to Note 2.2. Most of the other amendments and interpretations listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current period.

(iv) New and amended standards, improvements and interpretations, to existing standards not yet adopted by the Group

		Effective for accounting periods beginning on or after
Amendments to IFRS 3	Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of IFRS 16 Leases

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019. The new accounting policies are disclosed in Note 2.28.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.06%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease assets and lease liabilities immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 April 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of IFRS 16 Leases (Continued)

(ii) Measurement of lease liabilities

	2019 ¥ million
Operating lease commitments disclosed as at 31 March 2019	10,176
Discounted using the lessee's incremental borrowing rate at the date of initial application	(3,352)
Add: adjustments as a result of a different treatment of extension and termination options	26,041
Less: short-term leases recognised on a straight-line basis as expense	(660)
Add: finance lease liabilities under IAS 17 as at 31 March 2019	3,420
Lease liabilities recognised as at 1 April 2019	35,625
Of which are:	
Current lease liabilities	3,993
Non-current lease liabilities	31,632
	35,625

(iii) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 March 2019.

(iv) Adjustments recognised on adoption of IFRS 16

The carrying amount of right-of-use assets by class of underlying asset are as below:

	1 April 2019 ¥ million
Non-current assets	
Buildings	32,566
Leasehold improvements	1,646
Equipment and tools	97
	34,309

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of IFRS 16 Leases (Continued)

(iv) Adjustments recognised on adoption of IFRS 16 (Continued)

The following table shows the adjustment for change in accounting policy recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	As at 1 April 2019		
Consolidated statement of financial position (extracted)	As originally presented ¥ million	Adjustment under IFRS 16 ¥ million	Restated ¥ million
Non-current assets			
Property, plant and equipment	28,523	(3,661)	24,862
Right-of-use assets	–	34,309	34,309
Deferred tax assets	1,588	471	2,059
Non-current liabilities			
Lease liabilities	–	31,632	31,632
Obligations under finance leases	2,717	(2,717)	–
Current liabilities			
Lease liabilities	–	3,993	3,993
Obligations under finance leases	703	(703)	–
Equity			
Reserves	24,617	(1,086)	23,531

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of IFRS 16 Leases (Continued)

(vi) Accounting for sales and leaseback transaction

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package.

Until 31 March 2019, the accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

On the initial application day, the Group do not re-assess sale and leaseback transactions entered into before the date of initial application to determine whether or not the sale fulfilled the condition of IFRS 15. The seller-lessee accounts for any deferred gain or loss due to off-market term as an adjustment to the leaseback right-of-use asset for an operating leaseback.

Upon adoption of IFRS 16, the associated right-of-use for sales and leaseback entered into before the date of initial application were measured at the amount equal to the lease liability, adjusted by the amount of other liabilities, retained earnings and non-controlling interest, relating to that lease recognised in the consolidated statement of financial position as at 31 March 2019.

(vii) Impact on segment disclosures

Segment EBITDA for the year ended 31 March 2020, segment assets and segment liabilities as at 31 March 2020 changed as a result of the change in accounting policy as follows:

	Segment EBITDA ¥ million Increase/ (decrease)	Segment assets ¥ million Increase/ (decrease)	Segment liabilities ¥ million Increase/ (decrease)
Pachinko and pachislot hall operations	2,215	27,225	30,504
Amusement arcade operations	227	910	930
Others	(269)	276	441
	2,173	28,411	31,875

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully 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 2.4).

Inter-company 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.

(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 (iv) 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.

Where 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 and joint ventures 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 2.11.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting (Continued)

(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/permitted by applicable IFRSs.

2.4 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Business combinations (Continued)

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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. 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.

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost 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.

2.6 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 steering committee, which has been identified as being the chief operating decision maker, consists of the chief executive officer, the chief financial officer and the manager for corporate planning.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 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 at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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 statement of profit or loss on a net basis within other gains/(losses).

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 fair value through other comprehensive income are recognised in other comprehensive income.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 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 profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term 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 (note 2.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

2.9 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are presented in profit or loss as part of other income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Intangible assets

(i) Goodwill

Goodwill is measured as described in note 2.11. 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, licences and customer contracts

Separately acquired trademarks and licences are shown at historical cost. Trademarks, licences and customer contracts 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.

2.11 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)

2.12 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets (Continued)

(ii) Recognition, derecognition and measurement (Continued)

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.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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. The company has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.14 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 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.

2.15 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 22 for further information about the Group's accounting for trade receivables and note 3.1 for a description of the Group's impairment policies.

2.17 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 amounts of cash and which are subject to an insignificant risk of changes in value.

2.18 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.

2.19 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.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss 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 prepayment for liquidity services and amortised over the period of the facility to which it relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Borrowings (Continued)

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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 reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.21 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 and its 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)

2.21 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.

2.22 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Employee benefits (Continued)

(i) Pension obligations (Continued)

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.

(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.

2.23 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)

2.24 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (Continued)

(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.

2.25 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see note 8 below.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 11 below. Any other interest income is included in other income.

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).

2.26 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)

2.27 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.

2.28 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is in Note 2.2.

Until 31 March 2019, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received. Lease payments are allocated between principal and finance cost. The finance cost is charged to 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. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less and lease incentive received and initial direct cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Leases (Continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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 investment properties. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.29 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

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$"), US dollar ("US$"), 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Majority of the cost and revenue of the local operations in Vietnam, China and Hong Kong are primarily transacted in their local functional currency which are VND, RMB and HK$, respectively, and therefore foreign exchange transactional risks are minimal.

At 31 March 2020, 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 ¥30 million, higher or lower (2019: ¥16 million), mainly as a result of foreign exchange differences on translation of US$ denominated cash at bank balance.

(ii) Cash flow and fair value interest rate risk

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

As at 31 March 2020, if interest rates were increased or decreased by 25 basis points and all other variables were held constant, the Group's post-tax profit would have increased or decreased by approximately ¥4 million (2019: decreased or increased by ¥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 2020 (2019: 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.

	2020 **¥ million**	2019 ¥ million
Impact on other components of equity		
Share prices:		
— increase by 5%	**28**	39
— decrease by 5%	**(28)**	(39)

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% (2019: 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 sectors and/or regions.

As at 31 March 2020, top 5 customers of the Group accounted for approximately 68.8% (2019: 70.9%) 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 2020 and 2019 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.

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 2020					
Trade payables	**114**	**–**	**–**	**–**	**114**
Other payables (excluding accruals)	**1,861**	**–**	**28**	**3,150**	**5,039**
Borrowings	**3,531**	**2,609**	**5,912**	**2,190**	**14,242**
Lease liabilities	**3,622**	**3,381**	**8,077**	**29,763**	**44,843**
	9,128	**5,990**	**14,017**	**35,103**	**64,238**
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
Lease liabilities	833	564	157	2,642	4,196
	7,819	3,275	6,453	9,818	27,365

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.

	2020 ¥ million	2019 ¥ million
Borrowings	**13,086**	16,082
Lease liabilities (Note)	**2,701**	3,420
Total debt	**15,787**	19,502
Equity	**25,799**	27,511
Gearing ratio	**61.2%**	70.9%

Note: The balances only include leases under hire purchase arrangement.

3.3 Fair value estimation

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	Total ¥ million
As at 31 March 2020				
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	**565**	**–**	**–**	**565**
	565	**100**	**–**	**665**
Liabilities				
Derivative financial liabilities				
— Interest rate swaps	**–**	**25**	**–**	**25**
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

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 2020, 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 2020, 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 2020.

3.4 Offsetting financial assets and financial liabilities

As at 31 March 2020 and 2019, 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 of property, plant and equipment and right-of-use assets

The Group has substantial investments in property, plant and equipment and right-of-use assets. 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 16.

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2020 ¥ million	2019 ¥ million
Revenue		
Gross pay-ins	**139,053**	141,731
Less: gross pay-outs	**(114,046)**	(115,850)
Revenue from pachinko and pachislot hall business	**25,007**	25,881
Revenue from amusement arcades	**1,663**	1,535
Vending machine income	**480**	507
Revenue from hotel operations	**143**	132
Revenue from restaurant operations	**753**	270
	28,046	28,325

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker ("CODM") 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.

During the year, management has changed its internal performance review to align more closely with the Group's strategic decision and development of which the previous operating segment of "others" was separated into two operating segments, namely "others", representing hotel and restaurant operations in Japan and "restaurant operations" in China. The comparative amounts of the segment information in 2019 has been reclassified to reflect such change.

Management has identified four reportable segments based on the types of services, namely (i) pachinko and pachislot hall operations, (ii) amusement arcade operations, (iii) restaurant operations in China and (iv) others, representing hotel and restaurant operations in Japan.

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

Segment assets consist primarily of property, plant and equipment, right-of-use assets, intangible assets, 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, right-of-use assets, 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 2020 and 2019 are as follows:

	Year ended 31 March 2020				
	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operations	Other	Total
	Japan	Southeast Asia	China	Japan	
	¥ million	¥ million	¥ million	¥ million	¥ million
Segment revenue from external customers					
Over time	25,487	1,663	304	592	28,046
Segment results	2,438	56	(597)	(493)	1,404
Corporate expenses					(823)
Share of results of an associate					–
Profit before income tax					581
Income tax expense					(717)
Loss for the year					(136)
Other segment items					
Depreciation and amortisation expenses	(4,401)	(466)	(85)	(56)	(5,008)
Impairment loss on right-of-use assets	(181)	–	(90)	(192)	(463)
Impairment loss on intangible assets	(1)	–	(10)	–	(11)
Impairment loss on property, plant and equipment	(107)	–	(1)	(105)	(213)
Finance income	60	2	–	–	62
Finance costs	(1,346)	(90)	–	–	(1,436)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

	Year ended 31 March 2019				
	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operations	Other	Total
	Japan	Southeast Asia	China	Japan	
	¥ million	¥ million	¥ million (Restated)	¥ million (Restated)	¥ million
Segment revenue from external customers					
Over time	26,388	1,535	–	402	28,325
Segment results	2,314	153	(92)	(145)	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)	(16)	(55)	(2,632)
Impairment loss on property, plant and equipment	(195)	–	–	–	(195)
Finance income	50	2	–	–	52
Finance costs	(501)	(6)	–	–	(507)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment assets as at 31 March 2020 and 2019 are as follows:

	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operations	Other	Total
	Japan	Southeast Asia	China	Japan	
	¥ million	¥ million	¥ million	¥ million	¥ million
As at 31 March 2020					
Segment assets	**68,234**	**2,130**	**970**	**696**	**72,032**
Unallocated assets					**6,304**
Deferred income tax assets					**2,822**
Total assets					**81,158**
Addition to non-current assets other than financial instruments and deferred tax assets	**1,221**	**580**	**469**	**229**	**2,499**

	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operations	Other	Total
	Japan	Southeast Asia	China	Japan	
	¥ million	¥ million	¥ million (Restated)	¥ million (Restated)	¥ million
As at 31 March 2019					
Segment assets	42,933	1,003	863	958	45,757
Unallocated assets					6,698
Deferred income tax assets					1,588
Total assets					54,043
Addition to non-current assets other than financial instruments and deferred tax assets	4,606	156	122	297	5,181

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

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

	2020 ¥ million	2019 ¥ million
Japan, country of domicile	**59,314**	34,016
Southeast Asia and China	**2,365**	1,027
	61,679	35,043

No single external customer contributed more than 10% revenue to the Group's revenue for the year ended 31 March 2020 and 2019.

6 OTHER INCOME AND OTHER GAINS, NET

	2020 ¥ million	2019 ¥ million
Other income		
Rental income	**410**	167
Income from expired IC and membership cards	**29**	29
Dividend income	**55**	55
Compensation and subsidies (Note)	**332**	3
Income from scrap sales of used pachinko and pachislot machines	**169**	265
Others	**79**	32
	1,074	551
Other gains, net		
Loss on fair value for financial assets at fair value through profit or loss	**–**	(2)
Gain/(loss) on fair value for derivative financial instruments	**5**	(23)
Gain/(loss) on disposal of property, plant and equipment	**317**	(54)
Loss on disposal of investment properties	**–**	(7)
Others	**78**	140
	400	54

Note: During the year ended 31 March 2020, compensation and subsidies were mainly received from an insurance company for the typhoon that occurred in October 2019. The disaster caused significant damages to certain property, plant and equipment and inventories in certain pachinko and pachislot halls located principally in Fukushima Japan.

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7 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2020 ¥ million	2019 ¥ million
Auditors' remuneration		
— Audit fees	**115**	100
— Other services	**14**	7
Employee benefits expenses		
— Hall operations	**5,542**	5,510
— Administrative and others	**1,830**	1,683
Operating lease rental expense in respect of land and buildings	**291**	3,006
Depreciation of property, plant and equipment	**2,178**	2,532
Depreciation of right-of-use assets	**2,734**	–
Depreciation of investment properties	**20**	19
Amortisation of intangible assets	**76**	81
Reinstatement expenses	**27**	26
Recruitment expenses	**72**	65
Travelling and transportation	**111**	125
Other taxes and duties	**352**	395
Repairs and maintenance	**314**	291
Utilities expenses	**987**	1,055
Consumables and cleaning	**1,663**	1,495
Outsourcing service expenses	**960**	1,048
G-Prize procurement expenses to wholesalers	**878**	753
Pachinko and pachislot machines expenses (Note (i))	**6,692**	6,971
Advertising expenses	**1,219**	1,121
Service fee (Note 34)	**33**	32
Impairment loss on property, plant and equipment (Note 13)	**213**	195
Impairment loss on right-of-use assets (Note 14)	**463**	–
Impairment loss on intangible assets (Note 16)	**11**	–
Legal and professional fees	**49**	46
Loss on termination of existing outlets (Note (ii))	**–**	240
Others	**721**	581
	27,565	27,377

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 charge for early termination of rental contract of ¥143 million, forfeiture of rental deposits of ¥74 million and miscellaneous expenses in relation to the closure of halls of ¥23 million. No such costs incurred during the year ended 31 March 2020.

8 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2020 ¥ million	2019 ¥ million
Salaries, bonuses and allowances	**6,034**	5,877
Pension costs — defined contribution plan	**79**	78
Other employee benefits	**1,259**	1,238
	7,372	7,193

(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 (2019: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2020 include 1 director (2019: 1 director) whose emoluments are reflected in the analysis shown in Note 38. The emoluments payable to the remaining 4 (2019: 4) individuals during the year ended 31 March 2020 are as follows:

	2020 ¥ million	2019 ¥ million
Salaries, allowances and other benefits	**94**	90
Bonuses	**–**	–
Pension cost — defined contribution plan	**3**	3
	97	93

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

	Number of individuals	
	2020	2019
Emolument bands		
¥Nil to ¥13,540,000 (equivalent to approximately HK$Nil to HK$1,000,000)	**–**	2
¥13,540,001 to ¥20,310,000 (equivalent to approximately HK$1,000,001 to HK$1,500,000)	**2**	–
¥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

	2020 ¥ million	2019 ¥ million
Finance income		
Bank interest income	**5**	1
Other interest income	**57**	51
	62	52
Finance costs		
Bank borrowings	**(197)**	(196)
Lease liabilities	**(1,131)**	(195)
Provision for unwinding discount	**(108)**	(116)
	(1,436)	(507)
Finance costs, net	**(1,374)**	(455)

10 INCOME TAX EXPENSE

	2020 ¥ million	2019 ¥ million
Current income tax		
— Japan	**1,337**	518
— Other Asian countries	**38**	34
	1,375	552
Deferred income tax (Note 30)	**(658)**	(3)
	717	549

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 2020 and 2019 as the Group did not generate any assessable profits arising in Hong Kong and China during the years ended 31 March 2020 and 2019.

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:

	2020 ¥ million	2019 ¥ million
Profit before income tax	**581**	1,093
Tax calculated at the Japan tax rate of 29.9% (2019: 29.9%)	**174**	327
Income not subject to tax	**(22)**	(3)
Expenses not deductible for tax purpose	**314**	179
Unrecognised tax losses	**169**	72
Utilisation of previously unrecognised tax losses	**–**	(13)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**82**	(13)
	717	549

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% (2019: 29.9%) for the year ended 31 March 2020.

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% (2019: same).

11 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 March 2020 and 2019.

	2020	2019
Profit attributable to owners of the Company (¥ million)	**179**	610
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (thousands)	**1,195,850**	1,195,850
Basic and diluted earnings per share (¥)	**0.15**	0.51

No diluted earnings per share is presented as there was no potential dilutive shares during the years ended 31 March 2020 and 2019. Diluted earnings per share is equal to the basic earnings per share.

12 INTEREST IN AN ASSOCIATE

	2020 ¥ million	2019 ¥ million
At 1 April	–	5
Capital injection	–	(5)
Share of loss	–	–
Carrying amount	–	–
Unrecognised share of loss	(57)	(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 first payment amounted to US$640,000 (equivalent to approximately ¥70 million) will be due in December 2020. 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.

	2020 ¥ million	2019 ¥ million
Non-current assets	6	10
Current assets	220	313
Non-current liabilities	(280)	(355)
Current liabilities	(92)	(7)
Net liabilities	(146)	(39)
Revenue	45	3
Loss for the year	(108)	(48)

Notes to the Consolidated Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land ¥ million	Buildings ¥ million	Leasehold improvements ¥ million	Equipment and tools ¥ million	Motor vehicles ¥ million	Construction in progress ¥ million	Total ¥ million
Cost							
At 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
Adjustment on adoption of IFRS 16	–	(6,902)	–	(120)	–	–	(6,922)
At 1 April 2019 (restated)	8,758	11,182	13,917	13,185	140	28	47,210
Additions	113	43	318	515	–	484	1,473
Disposals	(1,115)	(286)	(574)	(775)	–	(20)	(2,770)
Transfer between categories	–	–	138	164	–	(302)	–
Translation differences	–	–	(16)	(29)	–	(3)	(48)
At 31 March 2020	7,756	10,939	13,783	13,060	140	187	45,865
Accumulated depreciation and impairment							
At 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)
Adjustment on adoption of IFRS 16	–	3,243	–	18	–	–	3,261
At 1 April 2019 (restated)	–	(4,797)	(7,741)	(9,740)	(70)	–	(22,348)
Depreciation (Note 7)	–	(450)	(753)	(975)	–	–	(2,178)
Disposals	–	133	369	594	–	–	1,096
Impairment (Note 7)	–	(68)	(112)	(33)	–	–	(213)
Translation differences	–	–	9	26	–	–	35
At 31 March 2020	–	(5,182)	(8,228)	(10,128)	(70)	–	(23,608)
Net book value							
At 31 March 2020	7,756	5,757	5,555	2,932	70	189	22,257
At 31 March 2019	8,758	10,044	6,176	3,447	70	28	28,523

Notes to the Consolidated Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Approaching the year ended 31 March 2019, the Group purchased a pachinko hall property from an independent 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.

During the year ended 31 March 2020, the Group sold a pachinko hall property to an independent third party buyer at a consideration of ¥1,980 million, comprising freehold land and building with the net book values of ¥1,115 million and ¥223 million, respectively, at the date of disposal.

Depreciation expenses of ¥2,096 million (2019: ¥2,490 million) has been charged in “hall operating expenses” and ¥82 million (2019: ¥42 million) has been charged in “administrative and other operating expenses” for the year ended 31 March 2020.

Construction in progress as at 31 March 2020 and 2019 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 2020 and 2019 has been disclosed in Note 28.

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 2020, 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.

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 2020 and 2019.

	2020		2019	
	Revenue growth rate	**Discount rate**	Revenue growth rate	Discount rate
Pachinko and pachislot hall operation	**-10% to 0%**	**9%**	0%	8.5%
Restaurant operations in China	**6%**	**13%**	N/A	N/A
Restaurant operations in Japan	**-10% to 0%**	**9%**	N/A	N/A

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 2020, as a result of the impairment review, impairment loss of approximately ¥213 million (2019: ¥195 million) has been recognised.

If the forecast revenue was lower by 2%, with all other variable held constant, the change of result would be insignificant.

Notes to the Consolidated Financial Statements

14 LEASES

(a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	31 March 2020 ¥ million	1 April 2019 ¥ million
Right-of-use assets		
Buildings	**30,565**	32,566
Leasehold improvement	**1,438**	1,646
Equipment and tools	**69**	97
Total right-of-use assets	**32,072**	34,309
Lease liabilities		
Current	**2,542**	3,993
Non-current	**32,035**	31,632
	34,577	35,625

14 LEASES (CONTINUED)

(a) Amounts recognised in the consolidated statement of financial position (Continued)

Additions to the right-of-use assets during the year ended 31 March 2020 were ¥963 million.

For the year ended 31 March 2020, as a result of the impairment review, impairment loss of approximately ¥463 million has been recognised.

Obligations under finance leases as at 31 March 2019

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

The present values of finance lease liabilities are as follows:

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

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 2020 (2019: same) for pachinko and pachislot business; and from 2 to 3 years with effective interest rate range from 8.06% to 20.0% (2019: same) for amusement arcade business. No arrangements have been entered into for contingent rental payments during the reporting periods.

Notes to the Consolidated Financial Statements

14 LEASES (CONTINUED)

(b) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	31 March 2020 ¥ million
Depreciation charge of right-of-use assets	
Buildings	2,412
Leasehold improvement	292
Equipment and tools	30
	2,734
Interest expense (included in finance cost)	1,131
Expense relating to short-term leases (included in hall expenses)	259
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	32

The total cash outflow for leases during the year ended 31 March 2020 was ¥3,142 million.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, pachinko and pachislot halls and amusement arcades centres, equipment and motor vehicles. Rental contracts are typically made for fixed periods of 5 to 20 years but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(d) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable under mutual agreement by the Group and the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Notes to the Consolidated Financial Statements

15 INVESTMENT PROPERTIES

	2020 ¥ million	2019 ¥ million
At 1 April		
Cost	**858**	857
Accumulated depreciation	**(208)**	(195)
	650	662
At cost		
At beginning of year	**650**	662
Additions	**–**	14
Disposals	**–**	(7)
Depreciation	**(20)**	(19)
At end of year	**630**	650
At 31 March		
Cost	**858**	858
Accumulated depreciation	**(228)**	(208)
	630	650

The investment properties have been pledged to secure general facilities granted to the Company (Note 28).

The Group had no unprovided contractual obligations for future repairs and maintenance as at 31 March 2020 and 2019.

15 INVESTMENT PROPERTIES (CONTINUED)

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:

	2020 ¥ million	2019 ¥ million
Rental income	**93**	96
Direct operating expenses from property that generated rental income	**(16)**	(18)
	77	78

The Group's investment properties were valued as at 31 March 2020 and 2019 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 2020 is ¥846 million (2019: ¥840 million). No impairment loss was recognised.

16 INTANGIBLE ASSETS

	Goodwill	Computer software	Trademarks	License	Contract relationship	Total
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
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 and 1 April 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
Year ended 31 March 2020						
Opening net book amount	1,205	24	112	68	253	1,662
Additions	–	60	–	3	–	63
Amortisation (Note 7)	–	(26)	(12)	(12)	(26)	(76)
Impairment (Note 7)	–	(1)	–	(10)	–	(11)
Translation difference	(21)	–	(3)	(5)	(8)	(37)
Closing net book amount	1,184	57	97	44	219	1,601
At 31 March 2020						
Cost	1,184	439	127	67	286	2,103
Accumulated amortisation	–	(382)	(30)	(23)	(67)	(502)
Net book amount	1,184	57	97	44	219	1,601

16 INTANGIBLE ASSETS (CONTINUED)

Amortisation expenses of ¥76 million was charged in "hall operating expenses" for the year ended 31 March 2020 (2019: ¥81 million).

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.

	2020 ¥ million	2019 ¥ million
Pachinko and pachislot business	**104**	104
Amusement arcade business	**1,080**	1,101
	1,184	1,205

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 calculations use pre-tax cash flow projections based on financial budgets 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 2020 and 2019. As a result, no impairment loss was charged during the years ended 31 March 2020 and 2019.

For the amusement arcade business, the annual revenue growth rate during the projection period is -5% to 4% (2019: 3% – 4%), whereas cash flows beyond the three-year period are extrapolated using an estimated growth rate of 3.8% (2019: same). The discount rate of 19.7% (2019: same) 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 2020 and 2019. As a result, no impairment loss was charged during the years ended 31 March 2020 and 2019. Any reasonably possible change in the key assumptions will not result in significant impairment.

Notes to the Consolidated Financial Statements

17 FINANCIAL INSTRUMENTS BY CATEGORY

	2020 ¥ million	2019 ¥ million
Financial assets		
Financial assets at fair value		
Fair value through profit or loss	**100**	100
Fair value through other comprehensive income	**565**	911
	665	1,011
Financial assets at amortised cost		
Trade receivables	**48**	53
Loan to an associate (Note 22)	**351**	354
Deposits and other receivables	**3,173**	3,332
Cash and bank balances	**14,878**	15,219
	18,450	18,958
	19,115	19,969
Financial liabilities		
Financial liabilities at fair value		
Derivative financial instruments	**26**	31
Other financial liabilities at amortised cost		
Trade payables	**114**	294
Other payables	**3,921**	4,295
Borrowings	**13,086**	16,082
Lease liabilities	**34,577**	3,420
	51,698	24,091
	51,724	24,122

Notes to the Consolidated Financial Statements

18 FINANCIAL ASSETS AT FAIR VALUE

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

	2020 ¥ million	2019 ¥ million
Unlisted securities	100	100
Less: non-current portion	–	(100)
Current portion	100	–

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

	2020 ¥ million	2019 ¥ million
Listed securities		
— Equity securities	565	781
Unlisted securities		
— Equity securities	–	130
	565	911

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.

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2020 ¥ million	2019 ¥ million
Interest rate swaps	26	31
Less: non-current portion	(22)	(27)
Current portion	4	4

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 2020, the notional amount of the outstanding interest rate swaps agreement with the banks amounted to ¥2,000 million (2019: same).

20 INVENTORIES

	2020 ¥ million	2019 ¥ million
Supplies	40	109

The cost of inventories recognised as expenses and included in "hall operating expenses" amounted to ¥6,692 million (2019: ¥6,971 million) and "administration and other operating expenses" amounted to ¥1 million (2019: ¥1 million) for the year ended 31 March 2020.

21 TRADE RECEIVABLES

	2020 ¥ million	2019 ¥ million
Trade receivables	48	53

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

21 TRADE RECEIVABLES (CONTINUED)

As at 31 March 2020 and 2019, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	2020 ¥ million	2019 ¥ million
Less than 30 days	**48**	52
31 days to 90 days	**–**	1
	48	53

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 2020 and 2019 and are denominated in ¥.

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 ¥ million	2019 ¥ million
Non-current portion		
Rental and other deposits	**2,902**	2,816
Rental prepayments	**–**	873
Lease receivables (Note)	**1,375**	–
Loan to an associate	**281**	354
Loans to other employees	**1**	1
Other prepayments and receivables	**560**	164
	5,119	4,208
Current portion		
Prepayment for prizes in operation for pachinko and pachislot halls	**466**	298
Rental prepayments	**130**	406
Lease receivables (Note)	**58**	–
Loan to an associate	**70**	–
Loans to other employees	**2**	1
Other prepayments and receivables	**300**	315
	1,026	1,020

Note: In October 2019, the Group entered into a sub-lease agreement with an independent third party to sub-lease properties located in Japan for a period of approximately 19 years.

The carrying amounts of prepayment, deposits and other receivables approximate their fair values as at 31 March 2020 and 2019.

Certain deposits and other receivables have been pledged to secure general facilities granted to the Company (Note 28).

Notes to the Consolidated Financial Statements

23 CASH AND BANK BALANCES

	2020 ¥ million	2019 ¥ million
Current portion		
Cash on hand	**747**	1,251
Cash at banks	**12,744**	12,670
Short term bank deposits	**637**	1,255
Cash and cash equivalents	**14,128**	15,176
Bank deposits with maturity over 3 months	**750**	43
	14,878	15,219
Total cash and bank balances	**14,878**	15,219

Cash and cash equivalents are denominated in the following currencies:

	2020 ¥ million	2019 ¥ million
Japanese Yen	**13,604**	14,383
United States dollar	**856**	445
Hong Kong dollar	**250**	252
Vietnamese dong	**152**	139
Others	**16**	–
	14,878	15,219

24 SHARE CAPITAL

	Number of Shares	**Share Capital** ¥ million
Ordinary shares, issued and fully paid:		
At 31 March 2019, 1 April 2019 and 31 March 2020	1,195,850,460	3,000

25 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.

26 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 31 March 2020 and 2019 were as follows:

	2020 **¥ million**	2019 ¥ million
Less than 30 days	**114**	47
31–90 days	**–**	242
Over 90 days	**–**	5
	114	294

The carrying amounts of trade payables approximate their fair values as at 31 March 2020 and 2019.

27 ACCRUALS, PROVISIONS AND OTHER PAYABLES

	2020 ¥ million	2019 ¥ million
Non-current portion		
Provision for reinstatement costs	**2,059**	2,054
Provision for long service payment	**40**	40
Rental deposit receipt in advance	**145**	102
Other payables	**26**	30
	2,270	2,226
Current portion		
Accrued purchases for pachinko and pachislot machines	**434**	269
Accrued purchases for property, plant and equipment	**236**	264
Accrued staff costs	**878**	1,072
Contract liabilities:		
Vending machine rental receipt in advance	**194**	201
Unutilised balls and tokens	**1,132**	1,078
Other tax payable	**745**	491
Office expenses and consumables	**554**	766
Utilities payable	**43**	49
Other payables	**188**	163
	4,404	4,353

The carrying amounts of other payables approximate their fair values as at 31 March 2020 and 2019.

During the year ended 31 March 2020, 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 ¥116 million and ¥55 million, respectively. As at 31 March 2020, the aggregate amount of transaction price allocated to the contact liabilities that are unfulfilled was ¥1,326 million of which ¥525 million are expected to be recognised as revenue during the next reporting period.

28 BORROWINGS

	2020 ¥ million	2019 ¥ million
Non-current portion		
Bank loans	**3,365**	3,247
Syndicated loans	**6,488**	8,545
	9,853	11,792
Current portion		
Bank loans	**1,427**	1,047
Syndicated loans	**1,806**	3,243
	3,233	4,290
Total borrowings	**13,086**	16,082

As at 31 March 2020 and 2019, the Group's borrowings were repayable as follows:

	2020 ¥ million	2019 ¥ million
Within 1 year	**3,233**	4,290
Between 1 and 2 years	**2,389**	2,445
Between 2 and 5 years	**5,454**	5,676
Over 5 years	**2,010**	3,671
	13,086	16,082

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

	2020	2019
Bank loans	**1.80%**	1.91%
Syndicated loans	**1.08%**	1.00%

28 BORROWINGS (CONTINUED)

As at 31 March 2020, the borrowings under sales and leaseback arrangements with a third party lessor amounted to ¥3,290 million (2019: ¥2,686 million). These sales and leaseback arrangements included sell of certain leasehold improvements and pachislot machines at an aggregate consideration of ¥3,983 million (2019: ¥2,801 million and lease-back to the Group for a total lease payment of ¥4,244 million (2019: ¥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:

	2020 ¥ million	2019 ¥ million
Property, plant and equipment	**10,475**	11,050
Investment properties	**630**	650
Deposits and other receivables	**178**	180
	11,283	11,880

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

	2020 ¥ million	2019 ¥ million
Floating rate		
— Expiring over 1 year	**600**	995

The carrying amounts of borrowings of the Group approximate their fair values as at 31 March 2020 and 2019.

Notes to the Consolidated Financial Statements

29 DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	2020 ¥ million	2019 ¥ million
Deferred income tax assets, net		
— to be recovered after more than 12 months	**1,219**	76
— to be recovered within 12 months	**1,603**	1,512
	2,822	1,588

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

	2020 ¥ million	2019 ¥ million
At 1 April	**1,588**	1,565
Adjustment on adoption of IFRS 16	**471**	–
At 1 April (Restated)	**2,059**	1,565
Credited to the consolidated statement of other comprehensive income	**105**	20
Credited to profit or loss	**658**	3
Deferred income tax assets	**2,822**	1,588

29 DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax assets and liabilities during the years ended 31 March 2020 and 2019 is as follows:

	Property, plant and equipment ¥ million	Asset retirement obligation ¥ million	Fair value through profit and loss financial assets ¥ million	Right-of-use assets ¥ million	Fair value through other comprehensive income ¥ million	Other provisions ¥ million	Total ¥ million
Balance at 1 April 2018	383	527	27	–	(75)	703	1,565
Credited/(charged) to profit or loss	14	18	8	–	–	(37)	3
Credited to other comprehensive income	–	–	–	–	20	–	20
Balance at 31 March 2019	397	545	35	–	(55)	666	1,588
Adjustment on adoption of IFRS 16 (Note 14)	–	–	–	471	–	–	471
Balance at 1 April 2019 (Restated)	397	545	35	471	(55)	666	2,059
Credited to profit or loss	388	15	–	121	–	134	658
Credited to other comprehensive income	–	–	–	–	105	–	105
Balance at 31 March 2020	785	560	35	592	50	800	2,822

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same taxation authority. The amounts shown in the consolidated statement of financial position are determined after appropriate offsetting.

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 2020, the Group has unrecognised tax losses of approximately ¥246 million (2019: ¥220 million) to carry forward for offsetting against future taxable income. These tax losses have no expiry dates except for the tax losses of ¥102 million (2019: ¥87 million) which will be carried forward for 9 years.

Other than the above, there was no material unprovided deferred income tax as at 31 March 2020 and 2019.

Notes to the Consolidated Financial Statements

30 DIVIDENDS

During the year ended 31 March 2020, the Company paid interim dividend of ¥120 million (¥0.10 per ordinary share) and final dividend of ¥84 million (¥0.07 per ordinary share) to its shareholders in respect of the years ended 31 March 2020 and 2019, respectively.

The board of directors of the Company has resolved not to declare a final dividend in respect of the year ended 31 March 2020 (2019: ¥0.07 per ordinary share).

31 CASH GENERATED FROM OPERATIONS

	2020 **¥ million**	2019 ¥ million
Profit before income tax	**581**	1,093
Adjustments for:		
Depreciation of property, plant and equipment	**2,178**	2,532
Depreciation of right-of-used assets	**2,734**	
Depreciation of investment properties	**20**	19
Amortisation of intangible assets	**76**	81
(Gain)/loss on disposal of property, plant and equipment	**(317)**	54
Loss on disposal of investment property	**–**	7
Impairment loss of property, plant and equipment	**213**	195
Impairment of right-of-use assets	**463**	–
Impairment of intangible assets	**11**	–
Finance costs, net	**1,374**	455
Dividend income	**(55)**	(55)
(Gain)/loss on fair value for derivative financial instruments	**(5)**	23
Loss on fair value for financial assets at fair value through profit or loss	**–**	2
Gain on lease and sub-lease arrangement	**(151)**	–
Share of loss of an associate	**–**	5
Release of obligations under finance lease upon closure of halls	**–**	(133)
Changes in working capital:		
Inventories	**69**	(51)
Trade receivables	**5**	5
Prepayments, deposits and other receivables	**(825)**	370
Trade payables	**(175)**	47
Accruals, provisions and other payables	**90**	433
Cash generated from operations	**6,286**	5,082

31 CASH GENERATED FROM OPERATIONS (CONTINUED)

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

	2020 ¥ million	2019 ¥ million
Net book amount	**1,674**	58
Gain/(loss) on disposal of property, plant and equipment	**317**	(54)
Proceeds from disposal of property, plant and equipment	**1,991**	4

Major non-cash transactions:

For the year ended 31 March 2020, certain finance lease obligations amounting to ¥321 million (2019: ¥138 million) were settled through reduction of rental prepayments.

For the year ended 31 March 2020, certain property, plant and equipment amounting to ¥12 million (2019: ¥259 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 2020 and 2019 presented.

	2020 ¥ million	2019 ¥ million
Cash and cash equivalents	**14,128**	15,176
Bank deposits with maturity over 3 months	**750**	43
Lease liabilities	**(34,577)**	(3,420)
Borrowings	**(13,086)**	(16,082)
Net debt	**(32,785)**	(4,283)

31 CASH GENERATED FROM OPERATIONS (CONTINUED)

	Other assets			Liabilities from financing activities		
	Long-term bank deposits ¥ million	Cash and cash equivalents ¥ million	Bank deposits with maturity over 3 months ¥ million	Lease liabilities ¥ million	Borrowings ¥ million	Total ¥ million
Net debt at 1 April 2018	47	15,594	43	(4,135)	(14,740)	(3,191)
Cash flows	(47)	(415)	–	981	(1,226)	(707)
Foreign exchange adjustments	–	(3)	–	–	–	(3)
Other non–cash movements	–	–	–	(266)	(116)	(382)
Net debt at 31 March 2019	–	15,176	43	(3,420)	(16,082)	(4,283)
Adoption of IFRS 16	–	–	–	(32,205)	–	(32,205)
Net debt at 1 April 2019 (restated)	–	15,176	43	(35,625)	(16,082)	(36,488)
Cash flows	–	(1,032)	707	2,011	2,996	4,682
Foreign exchange adjustments	–	(16)	–	–	–	(16)
Acquisition – lease	–	–	–	(963)	–	(963)
Net debt at 31 March 2020	–	14,128	750	(34,577)	(13,086)	(32,785)

32 CONTINGENCIES

As at 31 March 2020, the Group did not have any significant contingent liabilities (2019: Same).

33 COMMITMENTS

(a) Capital commitments

The outstanding commitments not provided for in the consolidated financial statements as at 31 March 2020 and 2019 are as follows:

	2020 ¥ million	2019 ¥ million
Contracted but not provided for		
Purchase of property, plant and equipment	664	19

(b) Operating lease commitments

(i) As a lessee

As at 31 March 2020, 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:

	2020 ¥ million	2019 ¥ million
No later than one year	–	1,298
Later than one year and no later than five years	–	4,333
Over five years	–	4,545
	–	10,176

From 1 April 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases.

(ii) As a lessor

As at 31 March 2020 and 2019, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	2020 ¥ million	2019 ¥ million
No later than one year	43	40

Notes to the Consolidated Financial Statements

34 RELATED PARTY TRANSACTIONS

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

Other than those transactions and balances disclosed elsewhere in the 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 2020 and 2019:

	2020 **¥ million**	2019 ¥ million
Service fee expenses		
Niraku USA, Inc.	**33**	32

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:

	2020 **¥ million**	2019 ¥ million
Directors' fees	**285**	250
Basic salaries, allowances and other benefits in kind	**42**	65
Employee's contribution to pension scheme	**5**	4
	332	319

Notes to the Consolidated Financial Statements

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	At 31 March 2020 ¥ million	2019 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment		**31**	9
Intangible assets		**1**	6
Deposits and other receivables		**5**	5
Loans to subsidiaries		**5,593**	6,756
Investments in subsidiaries		**18,206**	18,206
Financial assets at fair value through profit or loss		**348**	100
Deferred income tax assets		**47**	33
		24,231	25,115
Current assets			
Prepayments, deposits and other receivables		**957**	535
Loans to subsidiaries		**1,612**	2,906
Bank deposits with maturity over 3 months		**707**	570
Cash and cash equivalents		**3,590**	4,460
Financial assets at fair value through profit or loss		**100**	–
		6,966	8,471
Total assets		**31,197**	33,586
EQUITY			
Share capital		**3,000**	3,000
Reserves	(a)	**18,503**	17,829
Total equity		**21,503**	20,829
LIABILITIES			
Non-current liabilities			
Borrowings		**6,943**	9,142
Lease liabilities		**11**	–
Other payables		**24**	30
Derivative financial instruments		**22**	27
		7,000	9,199

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

	Note	At 31 March 2020 ¥ million	2019 ¥ million
Current liabilities			
Borrowings		**2,032**	3,466
Lease liabilities		**14**	
Other payables		**63**	72
Derivative financial instruments		**4**	4
Current income tax liabilities		**581**	16
		2,694	3,558
Total liabilities		**9,694**	12,757
Total equity and liabilities		**31,197**	33,586

Note (a): Reserves movement of the Company

	Share capital ¥ million	Capital surplus ¥ million	Retained earnings ¥ million	Total ¥ million
Balance at 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 and 1 April 2019	3,000	13,954	3,875	20,829
Profit for the year	–	–	878	878
Final dividend related to 2019	–	–	(84)	(84)
Interim dividend related to 2020	–	–	(120)	(120)
Balances at 31 March 2020	3,000	13,954	4,549	21,503

36 BENEFITS AND INTERESTS OF DIRECTORS

Directors and chief executive's emoluments

The remuneration of every director of the Company paid/payable by the Group for the year ended 31 March 2020 and 2019 is set out below:

For the year ended 31 March 2020

Name	Fee ¥ million	Salaries, allowances and other benefits ¥ million	Defined contribution pension costs ¥ million	Total ¥ million
Directors				
Hisanori Taniguchi (also the Chief Executive)	151	–	1	152
Akinori Ohishi (Note (i))	29	–	1	30
Masataka Watanabe (Note (i))	8	–	1	9
Non-executive director				
Hiroshi Bannai	4	–	–	4
Independent non-executive directors				
Hiroaki Morita (Note (iii))	3	–	–	3
Michio Minakata	6	–	–	6
Yoshihiro Koizumi	4	–	–	4
Kuraji Kutsuwata (Note (ii))	3	–	–	3
	208	–	3	211

Notes:

(i) Mr. Akinori Ohishi and Mr. Masataka Watanabe were appointed as executive directors on 27 June 2019.

(ii) Mr. Kuraji Kutsuwata was appointed as independent non-executive director on 27 June 2019.

(iii) Mr. Hiroaki Morita was resigned as independent non-executive director on 30 November 2019.

Notes to the Consolidated Financial Statements

36 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

Directors and chief executive's emoluments (Continued)

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 was resigned as independent non-executive directors on 31 October 2018.

* Insignificant amount less than ¥1 million

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the Group and/or their capacity as directors of the Company during the years ended 31 March 2020 and 2019.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 March 2020 and 2019.

During the year ended 31 March 2020, the Group does not pay consideration to any third parties for making available directors' services (2019: Nil).

As at 31 March 2020, there is no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and connected entities with such directors (2019: Nil).

Save as disclosed in Note 34, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: Nil).

37 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 March 2020 and 2019:

Name	Country and date of incorporation	Principal activities	Type of legal status	Issued and paid up capital	Effective interest held as at 31 March 2020	2019
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%

38 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 7 April 2020, the Japan government declared the state of emergency declaration in response to the outbreak of COVID-19. Entertainment facilities including pachinko and pachislot halls were requested to be suspended from operation by the local government. As a result, the Group had suspended operation of all 53 pachinko and pachislot halls and the restaurants in Japan since April 2020. With the decreasing number of infected cases in early May 2020, the Japan government has eased its restriction measure gradually and most of the Group's pachinko and pachislot halls had resumed operations sequentially in the same month.

As a result of the temporarily lockdown of pachinko and pachislot halls in Japan, the Group anticipates that the financial results and business operations will be negatively impacted after March 2020. Although the restriction and social-distancing measures imposed have been released subsequently, the Group expects the adverse effects may continue in the future. As of the reporting date, the management is still in process of assessing the overall financial effect and is subject to further evaluation. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

IAS 10 "Events After the Reporting Period" defines an adjusting event as an event that provides evidence of conditions that existed at the reporting date. A non-adjusting event indicates conditions that arose after the reporting date. The measurement of assets and liabilities as well as the impairment assessments as at 31 March 2020 prepared by management reflect the conditions that existed as of that date and have not reflected the possible effects of the outbreak. The effects will be reflected in the financial results for the year ending 31 March 2021.

Up to the date on which the consolidated financial statements were authorised for issue, the Group is continuously assessing the impact of the COVID-19 on the performance of the Group based on the latest development.

In addition, the estimated future cash flows of the Group's various cash-generating units ("CGUs") which are used for the impairment tests will be updated continuously based on the development of the COVID-19 outbreak. The recoverable amount of the Group's CGUs may be lower if the COVID-19 outbreak continues for a prolonged period.

Notwithstanding the recent negative impact on the Group's operations, management's assessment indicates that the going concern basis continues to be appropriate for the Group for the next 12 months from the reporting date and the Group will be able to comply with all bank covenants for the year ending 31 March 2021.

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