株式会社ニラク・ジー・シー・ホールディングス

NIRAKU GC HOLDINGS, INC.*

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

Stock Code 股份代號 : 1245

2017/2018

INTERIM REPORT 中期報告

* For identification purpose only 僅供識別

Contents

Corporate Profile

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

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

NIRAKU has a strong pachinko hall network with 54 halls at present, stretching from Tokyo Metropolitan Area to Northeast Honshu, equipped with over 28,000 pachinko and pachislot machines serving customers in ten prefectures in Japan.

* *for identification purpose only*

Corporation Information and Information for Investors

CORPORATE INFORMATION

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

INFORMATION FOR INVESTORS

Principal Bankers	Mizuho Bank, Ltd. Sumitomo Mitsui Bank Corporation The Toho Bank, Ltd.
Auditor	PricewaterhouseCoopers
Compliance Adviser	Shenwan Hongyuan Capital (H.K.) Limited
Legal Adviser	Deacons
Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Principal Place of Business in Hong Kong	505, 5/F Hutchison House, 10 Harcourt Road, Central, Hong Kong
Headquarter in Japan and Registered Office	1-1-39 Hohaccho Koriyama-shi, Fukushima, Japan 963-8811
Stock Code	1245
Investor and Media Relations Consultant	Strategic Financial Relations Limited
Website	www.ngch.co.jp
Investor Relation Inquiry	e-mail: niraku@sprg.com.hk

Financial and Operational Highlights

The following table summarises the results of the Group for the financial periods ended 30 September 2017 and 2016.

	For the six months ended 30 September			
	2017		2016	
	¥ million	**HK$ million**	¥ million	HK$ million
Gross pay-ins	**70,236**	**4,727**	74,057	5,670
Gross pay-outs	**(57,560)**	**(3,873)**	(59,617)	(4,564)
Revenue from pachinko and pachislot business	**12,676**	**853**	14,440	1,106
Other revenue	**432**	**29**	407	31
Revenue	**13,108**	**882**	14,847	1,137
Hall operating expenses	**(11,478)**	**(772)**	(12,000)	(919)
Administrative and other operating expenses	**(1,824)**	**(123)**	(2,280)	(175)
(Loss)/profit before income tax	**(104)**	**(7)**	576	44
(Loss)/profit attributable to the shareholders of the Company	**(221)**	**(15)**	363	28
(Loss)/earnings per share (expressed in Japanese Yen or Hong Kong dollar)	**(0.18)**	**(0.012)**	0.30	0.020
Overall revenue margin	**18.0%**	**–**	19.5%	–
Net (loss)/profit margin	**(1.7%)**	**–**	2.4%	–

	As at 30 September 2017		As at 31 March 2017	
	¥ million	**HK$ million**	¥ million	HK$ million
Current assets	**15,723**	**1,058**	15,276	1,027
Current liabilities	**8,068**	**543**	7,210	485
Net current assets	**7,655**	**515**	8,066	542
Total assets	**49,298**	**3,317**	49,413	3,323
Total assets less current liabilities	**41,230**	**2,774**	42,203	2,838
Gearing ratio	**59.6%**	**–**	59.1%	–

Financial and Operational Highlights

CURRENCY TRANSLATIONS

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

1. ¥14.86 to HK$1.00, the exchange rate prevailing on 29 September 2017 (i.e. the last business day in September 2017);

2. ¥13.06 to HK$1.00, the exchange rate prevailing on 30 September 2016 (i.e. the last business day in September 2016);

3. ¥14.87 to HK$1.00, the exchange rate prevailing on 31 March 2017 (i.e. the last business day in March 2017);

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

Management Discussion and Analysis

BUSINESS REVIEW

Pachinko industry continues to be severe following the effect of new regulations imposed by pachinko industry associations which require pachinko operators to replace pachinko machines of higher gaming element with pachinko machines of lower gaming element, which attracts less hall traffic. For the six months ended 30 September 2017, the Group's gross pay-ins from pachinko and pachislot business amounted to ¥70,236 million, comprising revenue from suburban halls of ¥66,729 million and urban halls of ¥3,507 million, representing a decrease of 5.3% and 2.1%, respectively, as compared to same period in 2016. The Group experienced an adverse financial results with loss attributable to shareholders of ¥221 million for the period ended 30 September 2017 as compared to profit attributable to shareholders of ¥363 million for the same period last year. The setback is attributable to replacement of machines of high-gaming element to low-gaming element which in turn generates less revenue than high-gaming element machines; and strategic increase in pay-out ratio to trigger higher customer visits while this would lower the gross profit in the short term.

Key performance indicators for the six months ended 30 September 2017 and 2016 are summarized as below:

	For the six months ended 30 September	
	2017	2016
	¥ million	¥ million
Gross pay-ins		
— Suburban halls	**66,729**	70,474
— Urban halls	**3,507**	3,583
Gross pay-outs		
— Suburban halls	**(54,803)**	(56,817)
— Urban halls	**(2,757)**	(2,800)
Revenue from pachinko and pachislot business		
— Suburban halls	**11,926**	13,657
— Urban halls	**750**	783
	12,676	14,440
Revenue margin		
— Suburban halls	**17.9%**	19.4%
— Urban halls	**21.4%**	21.9%
Machine utilisation rate		
— Pachinko	**23.6%**	23.9%
— Pachislot	**24.2%**	23.1%
Number of machines		
— Pachinko	**18,293**	18,441
— Pachislot	**10,104**	10,355
	28,397	28,796

Management Discussion and Analysis

	For the six months ended 30 September	
	2017	2016
	¥ million	¥ million
Number of halls		
— Suburban halls	**47**	48
— Urban halls	**7**	7
	54	55
Net (loss)/profit margin	**(1.7%)**	2.4%
(Loss)/earnings per share (in ¥)	**(0.18)**	0.30

CHALLENGES FACED AND STRATEGIES TAKEN

Apart from the market downturn and the change in pachinko regulations, the passage of the "Act on the Promotion of the Development of Integrated Resort Areas" (the "IR Promotion Act" or the "Act") also impacts the Group.

With the passage of the "IR Promotion Act" in December 2016, establishment of casinos resorts in Japan becomes legitimate. Despite the Act creates an opportunity for pachinko operators to step in the casino resorts business, it is likely to trigger discussion of the "gambling addiction problem" and strong calls for the pachinko industry to take initiatives and actions to address the social issues, including other gambling activities currently exist.

To tackle with the challenges, the Group intends to steadily promote the development of a gaming environment that meets the needs of diversified gaming fans by lowering the number of high playing cost machines in the halls; and further strengthen existing halls to improve service flexibility that meet the regional needs. In particular, the Group has enhanced general prizes varieties, which is one of the major factors affecting customers' selection of halls, through expansion of online prize system which enables customers to select general prizes from online shopping sites. Other measures include revamping existing halls to offer more pleasant playing environment to visitors; promoting "active local engine" marketing campaign to deepen the connection with local community, increase customer base, their recognition and loyalty; and continuing optimising the pay-out ratio to drive in higher traffic. The Group frequently reviews the performance of existing halls and necessary steps will be taken for halls identified as underperformed. During the current period, the Group, after careful consideration of its future profitability, decided to close down a fully impaired loss-making suburban hall in Gunma area. The Group considered that its closure would allow better resource allocation within the Group. To maintain stable operating cash flow without being influenced by macro-economy, the Group will strengthen the revenue driving capability of existing halls, streamline the operation, and improve cost efficiency. The Group's priority is to build a system capable of responding promptly to changes in the environment and efficient decision making, enhancing authority delegation, and constructing an effective and efficient organisational structure.

Management Discussion and Analysis

RECENT DEVELOPMENT AND FUTURE PLAN

Following the opening of the second Spanish restaurant in Nishi-Shinjuku in September 2016, on 5 August 2017, the third Spanish restaurant under the brand "LIZARRAN" was opened in Shinbashi, a commercial area and business centre in Tokyo. The new outlet has brought in ¥18 million revenue to the Group.

Listing on the Stock Exchange in 2015 allows the Group to gain a foothold into Asian market. The continuous economic growth in the Asian countries has increased the demand for leisure and entertainment activities, which the Group considered it as a good opportunity for business expansion. Subsequent to the six months ended 30 September 2017, on 31 October 2017, the Company entered into the share sale and purchase agreement with the owners of Dream Games Singapore Pte. Ltd., a company engaged in the operation of entertainment and amusement facilities in Cambodia and Vietnam, to purchase 100% of equity interest of Dream Games Singapore Pte. Ltd. (the "Acquisition"). The Acquisition represents a strategic opportunity for the Group to establish its leading presence in gaming and entertainment industry in Southeast Asia and broaden the types of entertainment provided by the Group; and is in line with the overall business strategies and the expansion plan of the Group to diversify income source. The Acquisition was completed on 20 November 2017 at an estimated cash consideration of ¥1.87 billion which the consideration may subject to further adjustment. The management is convinced that its profound experience in pachinko operation will prove to be useful in managing this new gaming business; and in return, bringing in new revenue and enhancing shareholders' investment return.

Apart from securing business profits, the Group is endeavour to create mechanisms in order to establish an organisation that upholds the corporate value — not only in the medium- to long-term, but for the future as well.

FINANCIAL REVIEW

Gross pay-ins

Gross pay-ins recorded a decrease of ¥3,821 million, or 5.2%, from ¥74,057 million for the six months ended 30 September 2016 to ¥70,236 million for the same period in current year. The decline was due to change in regulations of pachinko industry associations which require pachinko operators to replace higher gaming element pachinko machines with machines of lower gaming element, which attracted less hall traffic.

Gross pay-outs

Gross pay-outs, being the aggregate cost of G-prizes and general prizes exchanged by customers, dropped by ¥2,057 million, or 3.5%, from ¥59,617 million for the six months ended 30 September 2016 to ¥57,560 million for the same period in 2017. The drop generally mirrored the decline in gross pay-ins.

Revenue and revenue margin from pachinko and pachislot business

Revenue from pachinko and pachislot business declined from ¥14,440 million for the six months ended 30 September 2016 to ¥12,676 million for the same period in current year. The plunge in revenue by ¥1,764 million was primarily due to shrinkage of customer base as discussed above; and the closure of 1 suburban hall during the current period as discussed under "Business Review".

The revenue margin decreased by 1.5% from 19.5% for the six months ended 30 September 2016 to 18.0% for the same period in current year. The drop in revenue margin was due to increase in pay-out ratio to boost up customer visits which, in the short term, lowered the profit margin.

Management Discussion and Analysis

Other revenue

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

Vending machine income amounted to ¥272 million for the six months ended 30 September 2017. The slight decrease of ¥23 million as compared to ¥295 million for the same period in 2016 was resulted from the drop in customer visits.

Income from hotel operations amounted to ¥83 million for the six months ended 30 September 2017 with the average occupancy rate of 77.5%. Income derived from hotel operation remained at similar level as that for the six months ended 30 September 2016 of ¥82 million.

Revenue from restaurant under the brand "LIZARRAN" amounted to ¥77 million for the six months ended 30 September 2017. The surge of ¥47 million as compared to the same period in 2016 is mainly attributable to the opening of the second Spanish restaurant in September 2016 which generated addition revenue.

Hall operating expenses

Hall operating expenses decreased by ¥522 million, or 4.4%, from ¥12,000 million for the six months ended 30 September 2016 to ¥11,478 million for the same period in current year. Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and rental expenses, amounting to ¥4,339 million, ¥2,588 million and ¥1,307 million, respectively, for the six months ended 30 September 2017 (30 September 2016: ¥4,245 million, ¥2,615 million and ¥1,382 million, respectively).

The decline in hall operating expenses is mainly resulted from (i) the closure of a suburban hall in September 2016 which its related cost was not incurred in current period; (ii) the renewal of tenancy agreements for several halls at a lower rental charge; and (iii) the carrying out of large scale of repairs and maintenance during the period ended 30 September 2016 but the same was not incurred in current period.

Administrative and other operating expenses

Administrative and other operating expenses decreased by ¥456 million, or 20.0% from ¥2,280 million for the six months ended 30 September 2016 to ¥1,824 million for the same period in 2017. The decrease in expenses is due to impairment loss of ¥197 million was recognised for the six months ended 30 September 2016 in relation to the loss-making suburban hall which was closed during the current period while no such loss was recognised in current period; and tighten cost control measures were imposed enabling a higher cost saving.

Finance costs

Finance costs, net recorded a decrease of ¥64 million, or 21.6%, from ¥296 million for the six months ended 30 September 2016 to ¥232 million for the same period in 2017. The drop is resulted from the decrease in total borrowings for the six months ended 30 September 2017 as compared to the same period in 2016.

(Loss)/profit attributable to shareholders of the Company, basic (loss)/earnings per share and dividend

Loss attributable to shareholders of the Company of ¥221 million was recorded for the six months ended 30 September 2017, as compared to the profit attributable to shareholders of ¥363 million for the six months ended 30 September 2016. The turnaround from profit to loss was mainly due to the drop in gross pay-ins by 5.2%; and increase in pay-out ratio which lower the profit margin in the short term.

Management Discussion and Analysis

Basic loss per share was ¥0.18 (basic earnings per share for the six months ended 30 September 2016: ¥0.30). The Board has resolved not to declare an interim dividend for the six months ended 30 September 2017 (30 September 2016: ¥0.09 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 relied on short- and long-term borrowings for financing working capital, future expansion plans and unexpected needs. The Group's treasury objective is mainly to ensure there is sufficient cash flow to meet the payment of expenses, loans and to fund any capital expenditure and commitment that the Group may have from time to time. The Group's cash surpluses are placed in short-term and long-term fixed deposits to maintain liquidity. The Group has not experienced any difficulty in repaying its borrowings.

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

The table below sets forth the information regarding the cash and cash equivalents, bank deposits, bank borrowings, obligations under finance leases, working capital, total equity and gearing ratio of the Group as at 30 September 2017 and 31 March 2017, and operating cash flows before movements in working capital of the Group for the six months ended 30 September 2017 and 2016, respectively:

	As at 30 September 2017 ¥ million	As at 31 March 2017 ¥ million
Cash and cash equivalents	**14,152**	13,404
Bank deposits	**273**	287
	14,425	13,691
Bank loans	**2,470**	2,860
Syndicated loans	**9,066**	8,190
Obligations under finance leases	**4,642**	5,208
	16,178	16,258
Working capital	**7,655**	8,066
Total equity	**27,159**	27,499
Gearing ratio	**59.6%**	59.1%

Management Discussion and Analysis

	For the period ended 30 September	
	2017	2016
	¥ million	¥ million
Operating cash flows before movements in working capital	**1,246**	2,299

Net current assets of the Group totalled ¥7,655 million as at 30 September 2017 (31 March 2017: ¥8,066 million), and current ratio was 1.95 as at 30 September 2017 (31 March 2017: 2.12). As at 30 September 2017, there were cash and cash equivalents of ¥14,152 million (31 March 2017: ¥13,404 million), in which ¥13,163 million was denominated in Japanese Yen, ¥342 million was denominated in United States dollar and ¥647 million was denominated in Hong Kong dollar. The Group had total borrowings of ¥16,178 million as at 30 September 2017 (31 March 2017: ¥16,258 million). Current portion of borrowings and current portion of obligations under finance leases amounted to ¥4,135 million as at 30 September 2017 (31 March 2017: ¥3,554 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 30 September 2017, the total bank borrowings amounted to ¥11,536 million (31 March 2017: ¥11,050 million), with average effective interest rates on bank borrowings ranged from 1.06% to 1.72% (31 March 2017: 1.1% to 1.8%) per annum. Approximately 5.8% of bank borrowings as at 30 September 2017 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 30 September 2017, the Group had one floating to fixed interest rate swap contract with a bank in Japan (i.e. the Group pays fixed interest rates and receive interests at floating rate). This interest rate swap contract was entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the six months ended 30 September 2017, the gain on fair value for interest rate swap contracts amounted to ¥1 million.

The Group did not carry out any foreign currency investment and its debts were all denominated in Japanese Yen as at 30 September 2017. Following the Acquisition, as the functional currency 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 and Cambodian Riel 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 obligations under finance leases, divided by total equity, was 59.6% as at 30 September 2017 (31 March 2017: 59.1%). The increase of 0.5% as compared with that of the year ended 31 March 2017 was mainly due to decrease of total equity of ¥340 million, netted with decrease of total borrowings of ¥80 million.

Management Discussion and Analysis

CAPITAL EXPENDITURE

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

	As at 30 September 2017 ¥ million	As at 31 March 2017 ¥ million
Property, plant and equipment	**764**	653
Others	**3**	5
	767	658

CHARGES ON ASSETS

As at 30 September 2017, the carrying values of charged assets were as below:

	2017 ¥ million
Property, plant and equipment	**8,621**
Investment properties	**671**
Deposits and other receivables	**557**
	9,849

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 September 2017 and 31 March 2017.

CAPITAL COMMITMENTS

Details of the Group's capital commitments as at 30 September 2017 and 31 March 2017 are set out in Note 21 to the condensed consolidated interim financial information.

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

During the six months ended 30 September 2017, the Group did not conduct any significant investments, material acquisitions or disposals. Save for those disclosed in this interim report, the Group had no plan authorised by the Board for other material investments or additions of capital assets as at the date of this interim report.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2017, the Group had 1,487 employees. The remuneration policy of the Group (including those for directors and employees) is determined by the Remuneration Committee under the Board as per the performance, qualifications and competence of the employees. Details of the key management remuneration of the Company are set forth in Note 22(b) to the condensed consolidated interim financial information.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

During the six month ended 30 September 2017, the Company has adopted and complied with all the applicable principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), with the exception for code provision A.2.1, which requires the roles of chairman and chief executive to be separated and should be performed by different individuals.

Code Provision A.2.1

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct during the six months ended 30 September 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the six months ended 30 September 2017. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 30 September 2017.

Corporate Governance and Other Information

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

As at 30 September 2017, the interests and short positions of the Directors and the chief executives of the Company and their associates in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register as required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

	Capacity/Nature of interest	Total	Approximate % of shareholding
Hisanori TANIGUCHI (谷口久徳) (also known as Mr. JEONG Seonggi)	Beneficial owner, interest of controlled corporation[1]	224,480,460 common Shares	18.77%
Hiroshi BANNAI (坂内弘)	Beneficial Owner	106,000 common Shares	0.00%

Notes:

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

(2) All interests stated are long positions.

(3) There were 1,195,850,460 Shares in issue as at 30 September 2017.

Save as disclosed above, as at 30 September 2017, none of the Directors and chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 September 2017, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

	Capacity/Nature of interest	Total	Approximate % of shareholding
Tatsuo TANIGUCHI (谷口龍雄)	Beneficial owner, interest of controlled corporation; custodian[(1)]	223,790,000 common shares	18.71%
Masataka TANIGUCHI (谷口晶貴)	Beneficial owner, interest of controlled corporation; custodian[(2)]	151,570,000 common shares	12.67%
Yoshihiro TEI (鄭義弘)* (also known as JEONG Jungwung)	Beneficial owner, interest of controlled corporation; custodian[(3)]	98,440,000 common shares	8.23%
Sumitomo Mitsui Financial Group, Inc.* (株式会社三井住友フィナンシャルグループ)	Interest of controlled corporation[(4)]	229,137,500 common shares	19.16%
Sumitomo Mitsui Banking Corporation* (株式会社三井住友銀行)	Interest of controlled corporation[(4)]	229,137,500 common shares	19.16%
SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行)	Trustee[(1), (2), (3), (4)]	229,137,500 common shares	19.16%
CHOI Jung Ae (崔正愛)	Interest of a spouse[(5)]	224,480,460 common shares	18.77%
Hideko TANIGUCHI (谷口秀子)	Interest of a spouse[(6)]	223,790,000 common shares	18.71%
Eiko TANIGUCHI (谷口栄子)	Interest of a spouse[(7)]	151,570,000 common shares	12.67%
JEONG Kyeonghae (鄭慶惠)	Interest of a spouse[(8)]	98,440,000 common shares	8.23%
Okada Holdings Limited	Beneficial owner[(9)]	80,500,000 common shares	6.73%

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

Notes:

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

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

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

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

(5) Ms. CHOI Jung Ae (崔正愛) is the spouse of our Chairman and is therefore deemed to be interested in the Shares that our Chairman is interested in under the SFO.

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

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

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

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

(10) All interests stated are long positions.

(11) There were 1,195,850,460 Shares in issue as at 30 September 2017.

Save as disclosed above, and as at 30 September 2017, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

CHANGE TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the Directors since the date of the Company's Annual Report 2017 is set out below:

- Mr. Masaharu TOGO retired as the Independent Non-executive Director with effect from 29 June 2017.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the initial public offering in April 2015 amounted to approximately HK$339 million. As at 30 September 2017, all the net proceeds were utilised according to the originally planned purposes as set out in the Company's prospectus dated 24 March 2015.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2017 (30 September 2016: ¥0.09 per Share).

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the Interim Report for the six months ended 30 September 2017 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2017 have been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Report on Review of Interim Financial Information

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 44, which comprises the condensed consolidated statement of financial position of 株式会社ニラク•ジー•シー•ホールディングス NIRAKU GC HOLDINGS, INC*. (the "Company") and its subsidiaries (together, the "Group") as at 30 September 2017 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

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Report on Review of Interim Financial Information

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 November 2017

* *For identification purpose only*

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2017

	Note	**2017** ¥ million (Unaudited)	2016 ¥ million (Unaudited)
		Six months ended 30 September	
Revenue	6	**13,108**	14,847
Other income	7	**323**	421
Other losses, net	7	**(1)**	(116)
Hall operating expenses	8	**(11,478)**	(12,000)
Administrative and other operating expenses	8	**(1,824)**	(2,280)
Operating profit		**128**	872
Finance income		**25**	27
Finance costs		**(257)**	(323)
Finance costs, net	9	**(232)**	(296)
(Loss)/profit before income tax		**(104)**	576
Income tax expense	10	**(117)**	(213)
(Loss)/profit for the period attributable to shareholders of the Company		**(221)**	363
(Loss)/earnings per share for (loss)/profit attributable to shareholders of the Company			
— Basic and diluted (expressed in Japanese Yen per share)	11	**(0.18)**	0.30
Other comprehensive loss			
Change in value of financial assets through other comprehensive income		**(88)**	(37)
Total comprehensive (loss)/income for the period attributable to the shareholders of the Company		**(309)**	326

The notes on pages 27 to 44 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 30 September 2017

	Note	**30 September 2017 ¥ million (Unaudited)**	31 March 2017 ¥ million (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	13	**26,053**	26,406
Investment properties	13	**671**	678
Intangible assets	13	**166**	182
Prepayments, deposits and other receivables		**3,780**	3,866
Financial assets at fair value through profit or loss		**52**	104
Financial assets at fair value through other comprehensive income		**1,084**	1,210
Deferred income tax assets		**1,728**	1,656
Long-term bank deposits		**41**	35
		33,575	34,137
Current assets			
Inventories		**15**	20
Trade receivables	14	**54**	88
Prepayments, deposits and other receivables		**1,220**	1,457
Current income tax recoverable		**50**	55
Bank deposits with maturity over 3 months		**232**	252
Cash and cash equivalents		**14,152**	13,404
		15,723	15,276
Total assets		**49,298**	49,413

The notes on pages 27 to 44 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Financial Position (CONTINUED)

As at 30 September 2017

	Note	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	15	**3,000**	3,000
Reserves	16	**24,154**	24,499
		27,154	27,499
Non-controlling interest		**5**	–
Total equity		**27,159**	27,499
LIABILITIES			
Non-current liabilities			
Borrowings	18	**8,440**	8,656
Obligations under finance leases	19	**3,603**	4,048
Provisions and other payables		**2,018**	1,989
Derivative financial instruments		**10**	11
		14,071	14,704
Current liabilities			
Trade payables	17	**251**	123
Borrowings	18	**3,096**	2,394
Obligations under finance leases	19	**1,039**	1,160
Accruals, provisions and other payables		**3,681**	3,532
Derivative financial instruments		**1**	1
		8,068	7,210
Total liabilities		**22,139**	21,914
Total equity and liabilities		**49,298**	49,413

The notes on pages 27 to 44 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2017

	Attributable to shareholders of the Company								
	Share capital	Capital surplus (Note 16(a))	Capital reserve (Note 16(b))	Legal reserve (Note 16(c))	Investment revaluation reserve (Note 16(d))	Retained earnings	Sub-total	Non-controlling interest	Total
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Balance at 1 April 2016	3,000	13,954	(16,028)	107	134	25,930	27,097	–	27,097
Comprehensive income									
Profit for the period	–	–	–	–	–	363	363	–	363
Other comprehensive income									
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(37)	–	(37)	–	(37)
Total comprehensive (loss)/income for the period	–	–	–	–	(37)	363	326	–	326
Dividend	–	–	–	–	–	(120)	(120)	–	(120)
Total transaction with shareholders	–	–	–	–	–	(120)	(120)	–	(120)
Balances at 30 September 2016 (Unaudited)	3,000	13,954	(16,028)	107	97	26,173	27,303	–	27,303
Balance at 1 April 2017	3,000	13,954	(16,028)	107	272	26,194	27,499	–	27,499
Comprehensive income									
Loss for the period	–	–	–	–	–	(221)	(221)	–	(221)
Other comprehensive loss									
Financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(88)	–	(88)	–	(88)
Total comprehensive loss for the period	–	–	–	–	(88)	(221)	(309)	–	(309)
Investment in a subsidiary	–	–	–	–	–	–	–	5	5
Dividend	–	–	–	–	–	(36)	(36)	–	(36)
Total transactions with shareholders	–	–	–	–	–	(36)	(36)	5	(31)
Balance at 30 September 2017 (Unaudited)	3,000	13,954	(16,028)	107	184	25,937	27,154	5	27,159

The notes on pages 27 to 44 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2017

	Note	Six months ended 30 September 2017 ¥ million (Unaudited)	2016 ¥ million (Unaudited)
Cash flows from operating activities			
Cash generated from operations		**2,023**	2,931
Interest paid		**(201)**	(278)
Income tax (paid)/refunded		**(146)**	728
Net cash generated from operating activities		**1,676**	3,381
Cash flows from investing activities			
Purchase of property, plant and equipment		**(768)**	(109)
Purchase of investment properties		**(3)**	–
Purchase of intangible assets		**–**	(3)
Proceeds from disposal of financial assets at fair value		**50**	100
Proceeds from bank deposits with maturity over 3 months		**145**	1,672
Placement of bank deposits with maturity over 3 months		**(125)**	(1,534)
Placement of long-term bank deposits		**(6)**	(30)
Deposit for acquisition of a restaurant (Note)		**–**	(146)
Interest received		**1**	1
Dividend received		**30**	30
Net cash used in investing activities		**(676)**	(19)
Cash flows from financing activities			
Repayment of obligations under finance leases		**(646)**	(869)
Proceeds from bank borrowings		**3,378**	1,850
Repayment of bank borrowings		**(2,948)**	(3,102)
Dividends paid		**(36)**	(120)
Net cash used in financing activities		**(252)**	(2,241)
Net increase in cash and cash equivalents		**748**	1,121
Cash and cash equivalents at beginning of the period		**13,404**	12,310
Cash and cash equivalents at end of the period		**14,152**	13,431

Note: On 19 May 2016, the Company entered into the sales and purchase agreement with Coastal Heritage Limited (the "seller") to purchase 66.7% of equity interest in Nha Trang Holdings Limited, a company engaged in Vietnamese and pinot duck restaurants operation, at an aggregate consideration of HK$100 million. During the period ended 30 September 2016, the Group paid a deposit of HK$10 million (equivalent to approximately ¥146 million) to the seller. Pursuant to the announcement date 15 June 2016, the Group has terminated the agreement with the seller. As at 30 September 2017, the Group engaged an external lawyer and is undergoing the process of claiming the full amount of the deposit.

Non-cash transactions:

(a) For the six months ended 30 September 2017, property, plant and equipment of ¥25 million (For the six months ended 30 September 2016: ¥101 million) were purchased under finance leases.

(b) For the six months ended 30 September 2017, certain obligations under finance leases amounting to ¥55 million (For the six months ended 30 September 2016: ¥57 million) were settled through reduction of rental prepayments.

(c) During the six months ended 30 September 2017, the Company has incorporated two subsidiaries in Hong Kong on 4 May 2017 and 10 May 2017 with respective shareholdings of 100% and 51%. As at 30 September 2017, the investment amounts have not been settled yet.

The notes on pages 27 to 44 are an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

1 GENERAL INFORMATION

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

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

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

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

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 September 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 ACCOUNTING POLICIES

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

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2017, as described in those annual financial statements.

The following new standards and amendments have been issued and effective for annual periods beginning on 1 April 2017 with no impact on the Group's results of operations and financial positions:

Amendment to IAS 12	Income taxes
Amendment to IAS 7	Statement of cash flows
Amendment to IFRS 12	Disclosure of interest in other entities

There are no other standards or amendments that are effective for the first time for the six months ended 30 September 2017 that could be expected to have a material impact on this Group.

3 ACCOUNTING POLICIES (CONTINUED)

(b) Impact of standards issued but not yet applied by the Group

(i) IFRS 15 Revenue from contracts with customers

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

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

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

(ii) IFRS 16 Leases

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

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of ¥9,263 million (Note 21(b)). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

4 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2017.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2017.

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

5.2 Liquidity risk

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

5.3 Fair value estimation

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair value estimation (Continued)

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

	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	Total ¥ million
As at 30 September 2017 (Unaudited)				
Assets				
Financial assets at fair value through profit or loss				
— Unlisted securities	**–**	**52**	**–**	**52**
Financial assets at fair value through other comprehensive income				
— Listed securities	**954**	**–**	**–**	**954**
— Unlisted securities	**–**	**–**	**130**	**130**
	954	**52**	**130**	**1,136**
Liabilities				
Derivative financial liabilities				
— Interest rate swaps	**–**	**11**	**–**	**11**
As at 31 March 2017 (Audited)				
Assets				
Financial assets at fair value through profit or loss				
— Unlisted securities	–	104	–	104
Financial assets at fair value through other comprehensive income				
— Listed securities	1,080	–	–	1,080
— Unlisted securities	–	–	130	130
	1,080	104	130	1,314
Liabilities				
Derivative financial liabilities				
— Interest rate swaps	–	12	–	12

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair value estimation (Continued)

(a) *Financial instruments in level 1*

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

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at 30 September 2017, instruments included in level 2 comprise bonds, trust funds and interest rate swaps issued by a financial institution in Japan and which were classified as financial assets at fair value through profit or loss.

(c) *Financial instruments in level 3*

As at 30 September 2017, the Group valued its investment in the unlisted private company's equity shares based on its net asset value as the Group has determined that the reported net asset value represents fair value at the end of the reporting period.

6 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Six months ended 30 September	
	2017	2016
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Revenue		
Gross pay-ins	**70,236**	74,057
Less: gross pay-outs	**(57,560)**	(59,617)
Revenue from pachinko and pachislot hall business	**12,676**	14,440
Vending machine income	**272**	295
Revenue from hotel operation	**83**	82
Revenue from restaurant operations	**77**	30
	13,108	14,847

(b) Segment information

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

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

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, trade receivables, prepayments, deposits and other receivables, bank deposits with maturity over 3 months and cash and cash equivalents. They exclude deferred income tax assets and assets used for corporate functions including financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

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

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment information provided to the executive directors for the six months ended 30 September 2017 and 2016 are as follows:

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

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

	Six months ended 30 September 2016		
	Pachinko and pachislot hall operations ¥ million (Unaudited)	Others ¥ million (Unaudited)	Total ¥ million (Unaudited)
Segment revenue from external customers	14,735	112	14,847
Segment results	1,004	(38)	966
Corporate expenses			(390)
Profit before income tax			576
Income tax expense			(213)
Profit for the period			363
Other segment items			
Depreciation and amortisation expenses	(1,229)	(11)	(1,240)
Finance income	27	–	27
Finance costs	(323)	–	(323)
Capital expenditures	229	46	275

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment assets as at 30 September 2017 and 31 March 2017 are as follows:

	Pachinko and pachislot hall operations ¥ million	Others ¥ million	Total ¥ million
As at 30 September 2017			
Segment assets (Unaudited)	**39,005**	**750**	**39,755**
Unallocated assets			**7,815**
Deferred income tax assets			**1,728**
Total assets			**49,298**
As at 31 March 2017			
Segment assets (Audited)	40,437	636	41,073
Unallocated assets			6,684
Deferred income tax assets			1,656
Total assets			49,413

No single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 30 September 2017 and 2016.

The Group is domiciled in Japan and all non-current assets of the Group as at 30 September 2017 and 31 March 2017 are located in Japan.

7 OTHER INCOME AND OTHER LOSSES, NET

	Six months ended 30 September	
	2017	2016
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Other income		
Rental income	**74**	71
Income from expired IC and membership cards	**16**	17
Dividend income	**30**	30
Compensation and subsidies	**–**	2
Income from scrap sales of used pachinko and pachislot machines	**191**	280
Others	**12**	21
	323	421
Other losses, net		
Loss on disposal of financial assets at fair value through profit or loss	**(2)**	–
Gain/(loss) on fair value for interest rate swaps	**1**	(8)
Loss on disposal of property, plant and equipment	**(1)**	(13)
Net exchange loss	**1**	(95)
	(1)	(116)

8 OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 30 September	
	2017	2016
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Employee benefits expenses		
— Hall operations	**2,588**	2,615
— Administrative and others	**783**	790
Operating lease rental expense in respect of land and buildings	**1,348**	1,444
Depreciation of property, plant and equipment	**1,117**	1,213
Depreciation of investment properties	**10**	10
Amortisation of intangible assets	**16**	17
Provision for impairment loss on property, plant and equipment	**–**	197
Pachinko and pachislot machines expenses (Note)	**4,339**	4,245

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

9 FINANCE COSTS, NET

	Six months ended 30 September	
	2017	2016
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Finance income		
Bank interest income	**1**	1
Other interest income	**24**	26
	25	27
Finance costs		
Bank borrowings	**(81)**	(130)
Bond interest expense	**–**	(1)
Obligations under finance leases	**(120)**	(147)
Provision for unwinding discount	**(56)**	(45)
	(257)	(323)
Finance costs, net	**(232)**	(296)

10 INCOME TAX EXPENSE

	Six months ended 30 September	
	2017	2016
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Current tax		
— Japan corporate income tax	**151**	168
Deferred income tax	**(34)**	45
	117	213

Japan corporate income tax has been calculated on the estimated assessable profit for the six months ended 30 September 2017 and 2016 at the rates of taxation prevailing in Japan in which the Group operates.

No provision for Hong Kong profits tax has been made for the six months ended 30 September 2017 and 2016 as the Group did not generate any assessable profits arising in Hong Kong during both periods.

11 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 September 2017 and 2016.

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to shareholders of the Company (¥ million)	**(221)**	363
Weighted average number of shares for the purpose of calculating basic (loss)/earnings per share (thousands)	**1,195,850**	1,195,850
Basic and diluted (loss)/earnings per share (Japanese Yen)	**(0.18)**	0.30

Diluted (loss)/earnings per share is the same as basic (loss)/earnings per share as there was no potential dilutive shares during the six months ended 30 September 2017 and 2016.

12 DIVIDENDS

During the six months ended 30 September 2017, the Company paid dividend of ¥36 million (¥0.03 per ordinary share) to their shareholders in respect of the year ended 31 March 2017.

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2017 (Six months ended 30 September 2016: ¥0.09 per share).

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

During the six months ended 30 September 2017, the Group incurred expenditures of approximately ¥764 million and ¥3 million for property, plant and equipment and investment properties, respectively (Six months ended 30 September 2016: ¥272 million and ¥3 million for property, plant and equipment and intangible assets, respectively).

No impairment loss for property, plant and equipment was incurred by the Group for the six months ended 30 September 2017 (Six months ended 30 September 2016: ¥197 million).

During the six months ended 30 September 2017, the net book amounts of disposed property, plant and equipment amounted to approximately ¥1 million (Six months ended 30 September 2016: ¥13 million). During the six months ended 30 September 2017, there was no disposal of intangible asset and investment property (Six months ended 30 September 2016: Nil).

14 TRADE RECEIVABLES

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
Trade receivables	**54**	88

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

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

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
Less than 30 days	**54**	88

As at 30 September 2017 and 31 March 2017, no trade receivables were past due or impaired.

15 SHARE CAPITAL

	Number of shares	Share Capital ¥ million
Ordinary shares, issued and fully paid:		
At 30 September 2016, 1 April 2017 and 30 September 2017	1,195,850,460	3,000

16 RESERVES

(a) Capital surplus

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

(b) Capital reserve

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

(c) Legal reserve

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

(d) Investment revaluation reserve

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

17 TRADE PAYABLES

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

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
Less than 30 days	**84**	42
31–90 days	**167**	81
	251	123

18 BORROWINGS

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
Non-current portion		
Bank loans	**1,786**	1,922
Syndicated loans	**6,654**	6,734
	8,440	8,656
Current portion		
Bank loans	**684**	939
Syndicated loans	**2,412**	1,455
	3,096	2,394
Total borrowings	**11,536**	11,050

19 OBLIGATIONS UNDER FINANCE LEASES

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	**1,222**	1,364
Later than 1 year and no later than 2 years	**889**	999
Later than 2 years and no later than 5 years	**1,433**	1,709
Later than 5 years	**2,121**	2,264
	5,665	6,336
Future finance charges on finance leases	**(1,023)**	(1,128)
Present values of finance lease liabilities	**4,642**	5,208

19 OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

The present values of finance lease liabilities are as below:

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
No later than 1 year	**1,039**	1,160
Later than 1 year and no later than 2 years	**741**	835
Later than 2 years and no later than 5 years	**1,121**	1,371
Later than 5 years	**1,741**	1,842
Total obligations under finance leases	**4,642**	5,208
Less: Amount included in current liabilities	**(1,039)**	(1,160)
Non-current obligations under finance leases	**3,603**	4,048

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

20 CONTINGENCIES

As at 30 September 2017, the Group did not have any significant contingent liabilities (31 March 2017: Same).

21 COMMITMENTS

(a) Capital commitments

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

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
Contracted but not provided for Purchase of property, plant and equipment	**368**	20

21 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

(i) As a lessee

As at 30 September 2017 and 31 March 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and pachinko and pachislot halls as follows:

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
No later than one year	**997**	1,058
Later than one year and no later than five years	**3,472**	3,569
Over five years	**4,794**	5,150
	9,263	9,777

(ii) As a lessor

As at 30 September 2017 and 31 March 2017, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
No later than one year	**43**	40

22 RELATED PARTY TRANSACTIONS

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

22 RELATED PARTY TRANSACTIONS (CONTINUED)

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

(a) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the six months ended 30 September 2017 and 2016:

	Six months ended 30 September	
	2017	2016
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Service fee expenses		
Niraku USA, Inc.	**18**	17

The service fee paid was related to provision of gaming research services carried out by Niraku USA, Inc. and provision of training to employees of the Group in USA. Niraku USA, Inc. is a firm controlled by certain parties among the controlling shareholders of the Company. The transactions with related parties were conducted in the ordinary course of the business based on terms mutually agreed between the relevant parties.

(b) Key management compensation

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

	Six months ended 30 September	
	2017	2016
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Directors' fees	**110**	97
Basic salaries, allowances and other benefits in kind	**–**	–
Employee's contribution to pension scheme	**2**	2
	112	99

23 SUBSEQUENT EVENT

On 31 October 2017, the Company entered into the sales and purchase agreement with all the existing shareholders of Dream Games Singapore Pte. Ltd ("Dream Games") to purchase 100% of equity interest in Dream Games, a company engaged in the operation of entertainment and amusement facilities in Cambodia and Vietnam. The Company has also agreed to provide fund to Dream Games to repay a shareholder's loan. On 20 November 2017, the acquisition is completed at an estimated cash consideration of approximately ¥1.87 billion, which may be subject to adjustment within 60 business days from the completion date.