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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)

(Stock Code: 1245)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

RESULTS HIGHLIGHTS

- Gross pay-ins were ¥71,189 million (or HK$4,899 million#), recording an increase of 1.4% as compared with the same period last year;
- Revenue was ¥14,438 million (or HK$994 million#), recording an increase of 10.1% as compared with the same period last year;
- Profit before income tax was ¥1,393 million (or HK$96 million#), recording an increase of ¥1,497 million (or HK$103 million) as compared with the same period last year;
- Profit for the period attributable to shareholders of the Company was ¥878 million (or HK$59 million#), recording an increase of ¥1,099 million (or HK$76 million) as compared with the same period last year;
- Basic earnings per share of the Company was ¥0.73 (or HK$0.050#) (2017: basic loss per share was ¥0.18);
- The Board has resolved to declare an interim dividend of ¥0.08 (or HK$0.006) per share for the six months ended 30 September 2018 (Six months ended 30 September 2017: Nil); and
- The Group operated 55 halls as at 30 September 2018.

\# Translated into Hong Kong dollar at the rate of ¥14.53 to HK$1.00, the exchange rate prevailing on 28 September 2018 (i.e. the last business day in September 2018).

Note: The above % increases and decreases refer to the changes in respect of the Japanese Yen amounts but not the translated amounts in Hong Kong dollar.

* *For identification purpose only*

The board (the "Board") of directors (the "Directors") of NIRAKU GC HOLDINGS, INC.* (the "Company" or "NIRAKU") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2018 together with the comparative figures for the six months ended 30 September 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Six months ended 30 September 2018 ¥ million (Unaudited)**	2017 *¥ million* (Unaudited)
Revenue	*4*	**14,438**	13,108
Other income	*5*	**319**	323
Other gains/(losses), net	*5*	**36**	(1)
Hall operating expenses	*6*	**(11,166)**	(11,478)
Administrative and other operating expenses	*6*	**(2,011)**	(1,824)
Operating profit		**1,616**	128
Finance income		**24**	25
Finance costs		**(247)**	(257)
Finance costs, net	*7*	**(223)**	(232)
Profit/(loss) before income tax		**1,393**	(104)
Income tax expense	*8*	**(538)**	(117)
Profit/(loss) for the period		**855**	(221)
Profit/(loss) for the period attributable to:			
Owners of the Company		**878**	(221)
Non-controlling interest		**(23)**	–
		855	(221)

	Note	Six months ended 30 September **2018** **¥ million** **(Unaudited)**	2017 *¥ million* (Unaudited)
Earnings/(loss) per share for profit/(loss) attributable to owners of the Company			
— Basic and diluted (expressed in ¥ per share)	*9*	**0.73**	(0.18)
Other comprehensive income/(loss)			
Items that have been reclassified or may be subsequently reclassified to profit or loss			
Change in value of financial assets through other comprehensive income		**(5)**	(88)
Currency translation differences		**173**	–
Total comprehensive income/(loss) for the period		**1,023**	(309)
Total comprehensive income/(loss) attributable to:			
Owner of the Company		**1,049**	(309)
Non-controlling interest		**(26)**	–
		1,023	(309)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 September 2018 *¥ million* (Unaudited)**	31 March 2018 *¥ million* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**25,401**	26,207
Investment properties	*11*	**659**	662
Intangible assets	*11*	**1,662**	1,571
Prepayments, deposits and other receivables		**3,617**	3,751
Financial assets at fair value through profit or loss		**100**	52
Financial assets at fair value through other comprehensive income		**945**	953
Deferred income tax assets		**1,558**	1,565
Long-term bank deposits		**–**	47
		33,942	34,808
Current assets			
Inventories		**279**	57
Trade receivables	*12*	**60**	57
Prepayments, deposits and other receivables		**1,127**	1,312
Current income tax recoverable		**–**	300
Bank deposits with maturity over 3 months		**123**	43
Cash and cash equivalents		**17,491**	15,594
		19,080	17,363
Total assets		**53,022**	52,171

	Note	30 September 2018 ¥ million (Unaudited)	31 March 2018 ¥ million (Audited)
EQUITY			
Equity attributable to shareholders of the Company			
Share capital		**3,000**	3,000
Reserves		**25,082**	24,176
		28,082	27,176
Non-controlling interest		**(66)**	(40)
Total equity		**28,016**	27,136
LIABILITIES			
Non-current liabilities			
Borrowings	*14*	**10,080**	10,854
Obligations under finance leases	*15*	**2,888**	3,247
Provisions and other payables		**2,150**	2,111
Derivative financial instruments		**6**	8
		15,124	16,220
Current liabilities			
Trade payables	*13*	**308**	247
Borrowings	*14*	**4,106**	3,886
Obligations under finance leases	*15*	**770**	888
Accruals, provisions and other payables		**4,352**	3,793
Derivative financial instruments		**1**	1
Current income tax liabilities		**345**	–
		9,882	8,815
Total liabilities		**25,006**	25,035
Total equity and liabilities		**53,022**	52,171

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

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

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

2 BASIS OF PREPARATION

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

3 ACCOUNTING POLICIES

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

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

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

A number of new or amended standards became applicable for the current reporting period. Of these, IFRS 15 "Revenue from contracts with customers" is relevant to the Group's condensed consolidated interim financial information.

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

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

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

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

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

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

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

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

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

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

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

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

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

(b) Segment information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 OPERATING PROFIT

Operating profit is stated after charging the following:

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

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

7 FINANCE COSTS, NET

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

8 INCOME TAX EXPENSE

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

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

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

9 EARNINGS/(LOSS) PER SHARE

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

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

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

10 DIVIDENDS

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

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

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

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

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

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

12 TRADE RECEIVABLES

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

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

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

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

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

13 TRADE PAYABLES

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

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

14 BORROWINGS

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

15 OBLIGATIONS UNDER FINANCE LEASES

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

The present values of finance lease liabilities are as below:

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

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

16 BUSINESS COMBINATION

Acquisition of Dream Games Singapore Pte. Ltd.

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

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

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

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

17 SUBSEQUENT EVENT

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Pachinko business

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

Amusement arcade business

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

Restaurant business

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

CHALLENGES FACED, RECENT DEVELOPMENT AND FUTURE PLANS

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

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

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

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

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

FINANCIAL REVIEW

Gross pay-ins

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

Gross pay-outs

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

Revenue and revenue margin from pachinko and pachislot business

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

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

Revenue from amusement arcade business

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

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

Other revenue

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

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

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

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

Hall operating expenses

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

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

Administrative and other operating expenses

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

Finance costs

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

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

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

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

CAPITAL STRUCTURE

The Group principally meets its working capital and other liquidity requirements through a combination of capital contributions, including cash flow from operations and bank borrowings. The Group's daily operation is mainly financed by operating cash flows, and relied on short- and long-term borrowings for financing working capital, future expansion plans and unexpected needs. The Group's treasury objective is mainly to ensure there is sufficient cash flow to meet the payment of expenses, loans and to fund any capital expenditure and commitment that the Group may have from time to time. The Group's cash surpluses are placed in short-term and long-term fixed deposits to maintain liquidity. The Group has not experienced any difficulty in repaying its borrowings.

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

The table below sets forth the information regarding the cash and cash equivalents, bank deposits, bank borrowings, obligations under finance leases, working capital, total equity and gearing ratio of the Group as at 30 September 2018 and 31 March 2018, and operating cash flows before movements in working capital of the Group for the six months ended 30 September 2018 and 2017, respectively:

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

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

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

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

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 30 September 2018, the Group had one floating to fixed interest rate swap contract with a bank in Japan (i.e. the Group pays fixed interest rates and receive interests at floating rate). This interest rate swap contract was entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the six months ended 30 September 2018, the gain on fair value for interest rate swap contracts amounted to ¥3 million.

The Group's debts were primarily denominated in Japanese Yen. After the acquisition of Dream Games, the Group maintains an appropriate level of external borrowings in Vietnam Dong for natural hedging of Vietnam Dong attributed to projects in Vietnam. The Vietnam Dong exposure of the Group is mainly derived from the translation of non-current assets and liabilities of the Vietnam subsidiary with functional currency of Vietnam Dong and the Vietnam Dong deposits held for future development costs. As at 30 September 2018, the translation of non-current assets and liabilities of subsidiaries with functional currency other than Japanese Yen to Japanese Yen by using exchange rates at that day resulted in a gain of ¥56 million is recognised in equity. Apart from this, the Group does not have any material foreign exchange exposure.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and obligations under finance leases, divided by total equity, was 63.7% as at 30 September 2018 (31 March 2018: 69.6%). The plunge of 5.9% as compared with that of the year ended 31 March 2018 was mainly due to decrease of total equity of ¥880 million, netted with decrease of total borrowings of ¥1,031 million.

CAPITAL EXPENDITURE

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

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

CHARGES ON ASSETS

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

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

CONTINGENT LIABILITIES

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

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

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2018, the Group had 1,453 employees. The remuneration policy of the Group (including those for directors and employees) is determined by the Remuneration Committee under the Board as per the performance, qualifications and competence of the employees.

CORPORATE GOVERNANCE

During the six month ended 30 September 2018, the Company has adopted and complied with all the applicable principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), with the exception for code provision A.2.1, which requires the roles of chairman and chief executive to be separated and should be performed by different individuals, and code provision E.1.3, which requires that notice for an annual general meeting should be sent to the shareholders at least 20 clear business days before the meeting.

Code Provision A.2.1

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

Code Provision E.1.3

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct during the six months ended 30 September 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

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

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

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of ¥0.08 (or HK$0.006) per share for the six months ended 30 September 2018 (30 September 2017: Nil).

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the interim results for the six months ended 30 September 2018 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2018 has 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".

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ngch.co.jp), and the interim report of the Company for the six months ended 30 September 2018 will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

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
Hisanori TANIGUCHI
(also known as JEONG Seonggi)
Chairman, Executive Director and Chief Executive Officer

Fukushima, Japan, 22 November 2018

As at the date of this announcement, the executive Director is Hisanori TANIGUCHI (also known as JEONG Seonggi); the non-executive Director is Hiroshi BANNAI; and the independent non-executive Directors are Hiroaki MORITA, Michio MINAKATA and Yoshihiro KOIZUMI.

* *for identification purpose only*