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NIRAKU GC HOLDINGS

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 2022

RESULTS HIGHLIGHTS

- Gross pay-ins were ¥59,179 million (or HK\$3,210 million[#]), recording an increase of 11.3% as compared with the same period last year;
- Revenue was ¥12,363 million (or HK\$671 million[#]), recording an increase of 14.5% as compared with the same period last year;
- Profit before income tax was ¥1,626 million (or HK\$88 million[#]), compared with the profit before income tax of ¥1,625 million for the same period last year;
- Profit for the period attributable to owners of the Company was ¥1,063 million (or HK\$58 million[#]), recording a decrease of 12.0% as compared with the same period last year;
- Basic earnings per share of the Company was ¥0.89 (or HK\$0.05[#]) (Six months ended 30 September 2021: ¥1.01);
- The Board has resolved to declare an interim dividend of ¥0.17 per common share for the six months ended 30 September 2022 (Six months ended 30 September 2021: Nil); and
- The Group operated 49 halls as at 30 September 2022.

Translated into Hong Kong dollar at the rate of ¥18.44 to HK\$1.00, the exchange rate prevailing on 30 September 2022 (i.e. the last business day in September 2022).

* 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 2022 together with the comparative figures for the six months ended 30 September 2021 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2022

		Six months ended 30 September	
	Note	2022 ¥ million (Unaudited)	2021 ¥ million (Unaudited)
Revenue	4	12,363	10,795
Other income	5	253	331
Other gains, net	5	500	1,376
Hall operating expenses	6	(9,257)	(8,523)
Administrative and other operating expenses	6	(1,760)	(1,786)
Operating profit		2,099	2,193
Finance income		39	39
Finance costs		(512)	(607)
Finance costs, net	7	(473)	(568)
Profit before income tax		1,626	1,625
Income tax expense	8	(621)	(422)
Profit for the period		1,005	1,203
Profit for the period attributable to:			
Owners of the Company		1,063	1,209
Non-controlling interest		(58)	(6)
		1,005	1,203
Earnings per share for profit attributable to owners of the Company			
— Basic and diluted (expressed in ¥ per share)	9	0.89	1.01

	Six months ended	
	30 September	
<i>Note</i>	2022	2021
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Profit for the period	1,005	1,203
Other comprehensive loss		
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Change in value of financial assets through other comprehensive income	(4)	(10)
<i>Items that have been or may be subsequently reclassified to profit or loss</i>		
Currency translation differences	<u>(178)</u>	<u>(8)</u>
Total comprehensive income for the period	<u>823</u>	<u>1,185</u>
Total comprehensive income attributable to:		
Owners of the Company	933	1,205
Non-controlling interest	<u>(110)</u>	<u>(20)</u>
	<u>823</u>	<u>1,185</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		30 September 2022	31 March 2022
	Note	¥ million (Unaudited)	¥ million (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	17,082	17,754
Right-of-use assets	12	25,785	26,193
Investment properties	11	703	714
Intangible assets	11	366	361
Prepayments, deposits and other receivables		4,261	4,319
Interest in an associate		–	–
Financial assets at fair value through other comprehensive income		598	605
Deferred income tax assets		5,436	5,342
		<u>54,231</u>	<u>55,288</u>
Current assets			
Inventories		39	44
Trade receivables	13	107	74
Prepayments, deposits and other receivables		1,264	1,096
Financial assets at fair value through profit or loss		96	105
Bank deposits with maturity over 3 months		271	242
Cash and cash equivalents		11,162	11,451
		<u>12,939</u>	<u>13,012</u>
Total assets		<u><u>67,170</u></u>	<u><u>68,300</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		3,000	3,000
Reserves		17,085	16,630
		<u>20,085</u>	<u>19,630</u>
Non-controlling interest		(719)	(609)
Total equity		<u><u>19,366</u></u>	<u><u>19,021</u></u>

		30 September 2022	31 March 2022
	<i>Note</i>	¥ million (Unaudited)	¥ million (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	15	6,328	6,939
Lease liabilities	12	27,441	28,090
Provisions and other payables		2,233	2,244
Derivative financial instruments		5	9
		<u>36,007</u>	<u>37,282</u>
Current liabilities			
Trade payables	14	111	108
Borrowings	15	4,310	4,702
Lease liabilities	12	2,817	2,599
Accruals, provisions and other payables		3,952	4,244
Derivative financial instruments		1	2
Current income tax liabilities		606	342
		<u>11,797</u>	<u>11,997</u>
Total liabilities		<u>47,804</u>	<u>49,279</u>
Total equity and liabilities		<u><u>67,170</u></u>	<u><u>68,300</u></u>

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.* (the “Company”) was incorporated in Japan under the Japan Companies Act with limited liability on 10 January 2013. The address of its registered office is 1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan.

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

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

This condensed consolidated interim financial information was approved for issue on 25 November 2022.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2022 has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” issued by the International Accounting Standards Board. The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2022, as described in the 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.

(a) New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 April 2022:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS 37	Onerous contracts — Cost of Fulfilling a Contract
Annual Improvement to IFRS Standards 2018–2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41

The adoption of the amendments did not have any material impact on the Group’s accounting policies.

(b) **New and amended standards, improvements and practice statement to existing standards (collectively, the “Amendments”) not yet adopted by the Group**

IFRS 17	Insurance Contracts	1 January 2023
Amendments to IFRS 17	Amendments to IFRS 17	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The related impacts of the adoption of these Amendments to the Group are currently under assessment and the Group is not yet in a position to state whether any substantial changes to the Group’s significant policies and presentation of the financial information will result.

4 REVENUE AND SEGMENT INFORMATION

(a) **Revenue**

	Six months ended	
	30 September	
	2022	2021
	¥ million	¥ million
	(Unaudited)	(Unaudited)
Revenue		
Gross pay-ins	59,179	53,181
Less: gross pay-outs	(48,286)	(42,781)
	<hr/>	<hr/>
Revenue from pachinko and pachislot hall business	10,893	10,400
Revenue from amusement arcades	887	97
Vending machine income	191	180
Revenue from hotel operation	74	3
Revenue from restaurant operations	318	115
	<hr/>	<hr/>
	12,363	10,795
	<hr/> <hr/>	<hr/> <hr/>

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker (“CODM”) that are used for making strategic decisions. The CODM 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 loss before income tax and 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 four reportable segments based on the types of services, namely (i) pachinko and pachislot hall operations, (ii) amusement arcade operations, (iii) restaurant operation in China and (iv) others, representing hotel and restaurant operations in Japan.

Segment assets consist primarily of property, plant and equipment, investment properties, right-of-use assets, intangible assets, inventories, trade receivables, prepayments, deposits and other receivables, bank deposits 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, right-of-use assets, investment properties and intangible assets. Unallocated amounts 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 2022 and 2021 are as follows:

	Six months ended 30 September 2022				Total ¥ million
	Pachinko and pachislot hall operations Japan ¥ million	Amusement arcade operations Southeast Asia ¥ million	Restaurant operation China ¥ million	Others Japan ¥ million	
Segment revenue from external customers					
Over time	11,083	887	–	75	12,045
At a point in time	–	–	81	237	318
	<u>11,083</u>	<u>887</u>	<u>81</u>	<u>312</u>	<u>12,363</u>
Segment revenue from external customers	11,083	887	81	312	12,363
Segment results	1,334	153	(94)	10	1,403
Unallocated amounts					<u>223</u>
Profit before income tax					1,626
Income tax expense					<u>(621)</u>
Profit for the period					<u><u>1,005</u></u>

	Pachinko and pachislot hall operations Japan ¥ million	Amusement arcade operations Southeast Asia ¥ million	Restaurant operation China ¥ million	Others Japan ¥ million	Total ¥ million
Other segment items					
Depreciation and amortisation expenses	(1,801)	(105)	(40)	(16)	(1,962)
Impairment loss on right-of-use assets	(41)	-	-	(52)	(93)
Impairment loss on property, plant and equipment	(111)	-	-	(38)	(149)
Impairment loss on irrecoverable prepayments	-	-	-	(1)	(1)
Finance income	33	6	-	-	39
Finance costs	(474)	(36)	(2)	-	(512)

Six months ended 30 September 2021

	Pachinko and pachislot hall operations Japan ¥ million	Amusement arcade operations Southeast Asia ¥ million	Restaurant operation China ¥ million	Others Japan ¥ million	Total ¥ million
Segment revenue from external customers					
Over time	10,580	97	-	3	10,680
At a point in time	-	-	23	92	115
Segment revenue from external customers	<u>10,580</u>	<u>97</u>	<u>23</u>	<u>95</u>	<u>10,795</u>
Segment results	2,207	(244)	(295)	(35)	1,633
Unallocated amounts					<u>(8)</u>
Profit before income tax					1,625
Income tax credit					<u>(422)</u>
Profit for the period					<u><u>1,203</u></u>

	Pachinko and pachislot hall operations Japan ¥ million	Amusement arcade operations Southeast Asia ¥ million	Restaurant operation China ¥ million	Others Japan ¥ million	Total ¥ million
Other segment items					
Depreciation and amortisation expenses	(1,737)	(193)	(49)	(9)	(1,988)
Impairment loss on right-of-use assets	(21)	-	(274)	-	(295)
Impairment loss on property, plant and equipment	(42)	-	(1)	-	(43)
Impairment loss on intangible assets	-	-	(9)	-	(9)
Impairment loss on irrecoverable prepayments	-	-	(56)	-	(56)
Finance income	36	3	-	-	39
Finance costs	(576)	(31)	-	-	(607)

The segment assets as at 30 September 2022 and 31 March 2022 are as follows:

	Pachinko and pachislot hall operations Japan ¥ million	Amusement arcade operations Southeast Asia ¥ million	Restaurant operation China ¥ million	Others Japan ¥ million	Total ¥ million
As at 30 September 2022					
Segment assets	53,432	1,646	212	808	56,098
Unallocated assets					5,636
Deferred income tax assets					5,436
Total assets					67,170
Addition to non-current assets other than financial instruments and deferred tax assets					
	862	65	-	7	934
As at 31 March 2022					
Segment assets	54,675	1,212	174	833	56,894
Unallocated assets					6,064
Deferred income tax assets					5,342
Total assets					68,300
Addition to non-current assets other than financial instruments and deferred tax assets					
	4,050	184	-	97	4,331

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

	As at 30 September 2022 ¥ million (Unaudited)	As at 31 March 2022 ¥ million (Audited)
Japan	43,643	44,783
Southeast Asia	601	576
China	—	—
	<u>44,244</u>	<u>45,359</u>

No single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 30 September 2022 and 2021.

5 OTHER INCOME AND OTHER GAINS, NET

	Six months ended 30 September 2022 ¥ million (Unaudited)	2021 ¥ million (Unaudited)
Other income		
Rental income	110	105
Income from expired IC and membership cards	12	11
Dividend income	13	9
Compensation and subsidies	15	84
Income from scrap sales of used pachinko and pachislot machines	87	77
Others	16	45
	<u>253</u>	<u>331</u>
Other gains, net		
Gain on release of lease liabilities	20	1,349
(Loss)/gain on fair value of financial assets through profit or loss	(9)	2
Gain on fair value of derivative financial instruments	5	3
Gain on disposal of property, plant and equipment, net	10	25
Loss on disposal of intangible assets	—	(32)
Net exchange gain	474	29
	<u>500</u>	<u>1,376</u>

6 OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 30 September	
	2022 ¥ million (Unaudited)	2021 ¥ million (Unaudited)
Employee benefits expenses		
– Hall operations	2,259	2,280
– Administrative and others	704	618
Short-term operating lease rental expense in respect of land and buildings	124	65
Depreciation of property, plant and equipment	746	814
Depreciation of right-of-use assets	1,169	1,131
Depreciation of investment properties	11	11
Amortisation of intangible assets	36	32
Impairment loss on property, plant and equipment	149	43
Impairment loss on right-of-use assets	93	295
Impairment loss on intangible assets	–	9
Impairment loss on irrecoverable prepayments	1	56
Pachinko and pachislot machines expenses (<i>Note</i>)	<u>3,046</u>	<u>2,835</u>

Note:

Pachinko and pachislot machines are expensed off in the interim 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	
	2022 ¥ million (Unaudited)	2021 ¥ million (Unaudited)
Finance income		
Bank interest income	1	1
Interest income on lease receivables	17	18
Other interest income	<u>21</u>	<u>20</u>
	<u>39</u>	<u>39</u>
Finance costs		
Bank borrowings	(71)	(51)
Lease liabilities	(374)	(431)
Provision for unwinding discount	<u>(67)</u>	<u>(125)</u>
	<u>(512)</u>	<u>(607)</u>
Finance costs, net	<u>(473)</u>	<u>(568)</u>

8 INCOME TAX EXPENSE

	Six months ended 30 September	
	2022 ¥ million (Unaudited)	2021 ¥ million (Unaudited)
Current tax		
– Japan	726	408
– Other Asian countries	(35)	(3)
	<u>691</u>	<u>405</u>
Deferred income tax	(70)	17
	<u>621</u>	<u>422</u>

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 29.9% for the six months ended 30 September 2022 (For the six months ended 30 September 2021: Same).

Taxation on other Asian countries profits has been calculated on the estimated assessable profit for the year at the rate of taxation prevailing in the countries in which the Group operates. These rates range from 17.0% to 20.0% for the six months ended 30 September 2022 (For the six months ended 30 September 2021: Same).

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 September 2022 and 2021.

	Six months ended 30 September	
	2022 (Unaudited)	2021 (Unaudited)
Profit attributable to owners of the Company (¥ million)	<u>1,063</u>	<u>1,209</u>
Weighted average number of shares for the purpose of calculating basic earnings per share (thousands)	<u>1,195,850</u>	<u>1,195,850</u>
Basic and diluted profit per share (¥)	<u>0.89</u>	<u>1.01</u>

Diluted earnings per share is the same as basic earnings per share as there was no potential dilutive shares during the six months ended 30 September 2022 and 2021.

10 DIVIDENDS

For the six months ended 30 September 2022, the Company paid dividend of ¥478 million (¥0.4 per ordinary share) to their shareholders in respect of the year ended 31 March 2022. No dividend was paid during the six months ended 30 September 2021.

The Board has declared an interim dividend of ¥0.17 per ordinary share totalling ¥203 million in respect of the six months ended 30 September 2022 (For the six months ended 30 September 2021: Nil). These consolidated interim financial information do not reflect this dividend payable.

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

During the six months ended 30 September 2022, the Group incurred capital expenditures of approximately ¥215 million and ¥3 million for property, plant and equipment and intangible assets, respectively (For the six months ended 30 September 2021: ¥388 million and ¥2 million, respectively).

During the six months ended 30 September 2022, the net book amounts of disposal of property, plant and equipment and intangible assets amounted to approximately ¥15 million and ¥nil million, respectively (For the six months ended 30 September 2021: ¥11 million and ¥32 million, respectively).

As at 30 September 2022, property, plant and equipment and investment properties of ¥9,306 million and ¥584 million, respectively, (31 March 2022: ¥9,542 million and ¥592 million, respectively) were pledged to secure bank borrowings.

The Group carried out reviews of the recoverable amounts whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The reviews were performed at cash-generating unit (“CGU”) level, which is determined as each individual pachinko and pachislot hall in Japan, a pachinko and pachislot hall with hotel business in Japan, each restaurant in Japan and each amusement arcade in Southeast Asia and the restaurant operation in China.

For the six months ended 30 September 2022, the management regards CGUs that were operating loss for current period and performed below management’s expectation, defined as not fulfilling the projected operating cash flow after overhead allocation, as having impairment indicator. The management has reviewed the recoverability of the relevant carrying amounts of these CGUs.

The recoverable amount of a CGU is determined based on the fair value less cost of disposal or value-in-use, whichever is higher.

The value-in-use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The key assumptions used in the value-in-use calculations for the six months ended 30 September 2022 and 2021 are as follows:

	Six months ended 30 September			
	2022		2021	
	Revenue growth rate	Pre-tax discount rate	Revenue growth rate	Pre-tax discount rate
Pachinko and pachislot hall operations	0%	9%	0%	9%
Amusement arcade operations	5%	20%	0%	20%
Restaurant operations	N/A	N/A	0%	17%
Other operation	0%	9%	0%	9%

The discount rates applied by the Group are rates that reflect current market assessment of the time value of money and the risk specific to the CGUs. Revenue growth rate is based on past practices and expectations on market and operational development.

The fair value less cost of disposal is calculated for CGU with significant self-owned property, and is based on valuation carried out by an independent professionally qualified valuer, who holds recognised relevant professional qualifications and has recent experiences in the locations and segments of the property valued. No CGU subject to impairment review for the six months ended 30 September 2022 had significant self-owned property. For the six months ended 30 September 2021, the valuation was determined using the market approach, which largely used observable and unobservable inputs, including unit price per square meter of sales comparable for land. The fair values of the CGU subject to fair value less cost of disposal calculation is within level 3 of the fair value hierarchy.

The key assumptions used for fair value less costs of disposal calculation for the six months ended 30 September 2021 are as follows:

	Six months ended 30 September 2022		2021
Sales comparison approach			
Land — unit price square meter	<u>N/A</u>	<u>¥97,200</u>	

The Group's finance department includes a team that reviews the valuation performed by the independent valuer for financial reporting purposes. This team reports directly to the executive directors. Discussions of valuation processes and results are held between the valuation team and valuer at least annually.

For the six months ended 30 September 2022, as a result of the impairment review, impairment loss of approximately ¥149 million (For the six months ended 30 September 2021: ¥43 million), ¥93 million (For the six months ended 30 September 2021: ¥295 million) and ¥1 million (For the six months ended 30 September 2021: ¥56 million) has been recognised on property, plant and equipment, right-of-use assets (Note 12) and irrecoverable prepayments, respectively. There was no impairment loss recognised for intangible assets for the six months ended 30 September 2022 (For the six months ended 30 September 2021: ¥9 million).

For pachinko and pachislot hall operations, impairment loss of approximately ¥152 million was recognised for current period (For the six months ended 30 September 2021: ¥63 million).

For amusement arcade operations, no impairment loss was recognised for current period (For the six months ended 30 September 2021: Nil).

For restaurant operations, no impairment loss was recognised in current period as all underlying non-current assets had been fully impaired (For the six months ended 30 September 2021: ¥340 million).

For other operations, impairment loss of approximately ¥91 million was recognised in current period (For the six months ended 30 September 2021: Nil).

For pachinko and pachislot operations, if the revenue growth rate in the value-in-use calculations decreased by 2% with other assumptions remain constant, addition in impairment loss of ¥33 million (For the six months ended 30 September 2021: addition in impairment loss of ¥168 million) would be recorded. If the discount rate in the value-in-use calculations increased by 1% with other assumptions remain constant, addition in impairment loss of ¥24 million (For the six months ended 30 September 2021: addition in impairment loss of ¥184 million) would be recorded. If the unit price per square meter in the fair value less cost of disposal calculation for the six months ended 30 September 2021 decreased by 1%, with other assumptions remain constant, addition in impairment loss would be immaterial.

For amusement arcade operations, if the revenue growth rate in the value-in-use calculations decreased by 2%, or the discount rate increased by 2%, with other assumptions remain constant, no additional impairment loss would be recorded (For the six months ended 30 September 2021: addition in impairment loss of ¥11 million and ¥10 million would be recorded respectively).

For restaurant operations and other operations, if the revenue growth rate decreased by 2%, or the discount rate increased by 1%, with other assumptions remain constant, addition in impairment loss would be immaterial (For the six months ended 30 September 2021: Same).

12 LEASES

During the six months ended 30 September 2022, the Group entered into a number of lease agreements for the use of equipment, staff quarters and vehicles, and therefore recognised the additions of right-of-use assets of ¥716 million (For the six months ended 30 September 2021: ¥1,975 million).

During the six months ended 30 September 2021, the Group received COVID-19-related rent concessions in the form of waiver or reduction on fixed monthly rental and has accounted such rent concessions as lease modifications. No COVID-19-related rent concession was received by the Group during the six months ended 30 September 2022.

Amounts recognised in the interim condensed consolidated statement of financial position are as follows:

	30 September 2022	31 March 2022
	¥ million	¥ million
	(Unaudited)	(Audited)
Right-of-use assets		
Buildings	22,480	21,959
Leasehold improvement	3,039	3,963
Equipment and tools	240	243
Vehicles	26	28
	<u>25,785</u>	<u>26,193</u>
Lease liabilities		
Current	2,817	2,599
Non-current	27,441	28,090
	<u>30,258</u>	<u>30,689</u>

For the six months ended 30 September 2022, as a result of the impairment review, impairment loss of approximately ¥93 million (For the six months ended 30 September 2021: ¥295 million) has been recognised on right-of-use assets. Please refer to Note 11 for details of the impairment review.

13 TRADE RECEIVABLES

	30 September 2022 ¥ million (Unaudited)	31 March 2022 ¥ million (Audited)
Trade receivables	<u>107</u>	<u>74</u>

Trade receivables represent commission income receivable from vending machines and income receivables from hotel and restaurant operations. 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 2022 ¥ million (Unaudited)	31 March 2022 ¥ million (Audited)
Less than 30 days	69	46
Over 30 days	<u>38</u>	<u>28</u>
	<u>107</u>	<u>74</u>

14 TRADE PAYABLES

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

	30 September 2022 ¥ million (Unaudited)	31 March 2022 ¥ million (Audited)
Less than 30 days	111	15
31–90 days	<u>–</u>	<u>93</u>
	<u>111</u>	<u>108</u>

15 BORROWINGS

	30 September 2022 ¥ million (Unaudited)	31 March 2022 ¥ million (Audited)
Non-current portion		
Bank loans	3,134	3,158
Syndicated loans	<u>3,194</u>	<u>3,781</u>
	<u>6,328</u>	<u>6,939</u>
Current portion		
Bank loans	2,745	2,557
Syndicated loans	<u>1,565</u>	<u>2,145</u>
	<u>4,310</u>	<u>4,702</u>
Total borrowings	<u>10,638</u>	<u>11,641</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Howbeit the continuous evolution and dissemination of Coronavirus Disease 2019 (“COVID-19”) variant, with high vaccination level and waning of the disease, many local governments have shifted their strategy from “suppressing any community transmission of COVID-19” to “living with COVID-19” in order to restore social activities and stimulate regional economies. With the ease of restrictive measures and benefit from the pent-up demand, the Group’s domestic business in Japan, as well as its overseas investment in Southeast Asian countries have recorded a considerable improvement on its revenue amid the continuous severity of the business environment. Oppositely, the business in China remained to be challenging as their “zero-covid” policy has led to a pullback in consumer spending. For the six months ended 30 September 2022, revenue of the Group amounted to ¥12,363 million, recording an increase of ¥1,568 million, as compared to ¥10,795 million for the six months ended 30 September 2021. Profit before tax remains stable at ¥1,626 million for the six months ended 30 September 2022 as compared to ¥1,625 million for the same period last year, with the net profit attributable to the owners of the Company amounted to ¥1,063 million, a decrease of 12.0%. Tapping new resources and economizing on expense remain the Group’s key measures in achieving a stable return.

BUSINESS SEGMENT ANALYSIS

Pachinko business

Pachinko revenue recorded a hike of ¥5,998 million for the six months ended 30 September 2022 from ¥53,181 million in prior period to ¥59,179 million in current period. Following the lifting of quasi-emergency state measures and reopening of cross boarder activities, the pachinko business has noted a steady pickup.

Nevertheless, the prolonged decline in pachinko business and the global political instability along with the high inflation rate have affected consumers’ purchasing power and hindered the pace of business recovery. Opening new pachinko halls and frequent replacement of game machines are the Group’s main focus on broadening its revenue and boosting the hall traffic. Approaching the end of financial year 2022, two new pachinko halls were opened in Kanto area, generating an additional revenue of over ¥2,200 million in current period. For the six months ended 30 September 2022, spending placed on machine replacement amounted to ¥3,046 million, an increase of ¥211 million as compared to the same period in prior year, giving parlor visitors the full enjoyment as new model machines are featured with popular animations, which in turn driving higher customer turnover rate. The Group stresses to minimize its spending through streamlining operating structure and bargain for rental concession in order to maintain a stable return.

Amusement arcades business

Further to the loosening of COVID-19 restrictions and lifting of lockdowns and social distancing measures as announced by the local governments in Southeast Asia, recovery has seen on consumer sentiment towards leisure spending. For the six months ended 30 September 2022, revenue from this business segment was drastically increased by ¥790 million, which is eight times higher as compared to the same period in 2021. The management is optimistic and expects the business will soon return to pre-pandemic level.

Restaurant business

The Group's franchised food and beverage business comprises 3 Spanish restaurants named "LIZARRAN", 2 cafés named "KOMEDA" as well as 2 Taiwanese bubble tea cafés called "Gong Cha", which are all located in Japan. Subsequent to the cancelation of the order for shorter business hours, the Group's restaurants and cafés were reopened in full capacity. Revenue from this sector surged from ¥92 million for the six months ended 30 September 2021 to ¥237 million in current period. With regard to the "YOKOCHO" business in China, although an increase in revenue by ¥58 million was noted for the six months ended 30 September 2022, the business is still facing its greatest challenge over the uncertainty of when the government's zero-COVID approach will be tweaked.

PROSPECT AND FUTURE DEVELOPMENT

In spite of the macro- and micro-economic headwinds, the Group is resilient and stays resolute in maximising its returns and increasing its market share through new technology introduction, effective cost control and search for possible business buyout.

Providing a pleasant and safe environment to visitors is essential in gaining customer satisfaction and boosting revenue. The Group has planned to start the installation of Smart Slots machines by the end of the third quarter of 2022, and Smart Pachinko machines will be introduced from April 2023. These new machines eliminate the need for deploying physical balls, enhance measures against infectious diseases and improve level of enjoyment. During the current period, a self-serviced prize-exchange system named "Self-POS" was launched at 10 of the Group's pachinko halls, allowing customers to exchange their prizes any time at their will, and on the other hand, reducing the manpower at halls. Feedbacks were positive, more halls will be implemented with the system during the rest of the financial year.

Although the dinning habit has changed due to the effect of pandemic, the Group has seen an uptrend of food and beverage business after the reopening of all restaurants and cafés. The Group schedules to open a "LIZARRAN" restaurant in Tokyo and a "KOMEDA" café in an Aeon Mall by the end of 2023. The Group persists in seeking new opportunities for its hospitality business expansion.

Partnering with Aeon, a reputable Japanese shopping mall developer, remains the key strategic approach of the Group in its Southeast Asian investment. Tying in with Aeon's business plan on mall development, a new amusement arcade will come into operation in an Aeon Mall that is scheduled to open in Cambodia by the end of 2022.

In the aftermath of the pandemic, governments around the world have begun to formulate strategies to resurrect their economies. Although the path to economic recovery may take longer than expected and the economic environment remains severe, the Group sees every challenge as an opportunity to grow and learn, and to strengthen up. The Group embraces its motto of "Happy Time, Creation"; brings joy to players; establishes a rapport and long-term relationship with customers and business partners; and strives for sustainable returns to shareholders.

FINANCIAL REVIEW

Revenue from Pachinko and Pachislot Business

Revenue from pachinko and pachislot business is derived from gross pay-ins netted with gross pay-outs.

Revenue from pachinko and pachislot business recorded an increase of ¥493 million, or 4.7%, from ¥10,400 million for the six months ended 30 September 2021 to ¥10,893 million for the same period in 2022. The rise in revenue was attributable to the continuous relaxation of COVID-19 restrictions which allow halls to operate in their full capacity; and an additional revenue was generated from two pachinko halls which were newly opened close to the financial year end of 2022.

Gross pay-ins

Gross pay-ins recorded a considerable increase of ¥5,998 million, or 11.3%, from ¥53,181 million for the six months ended 30 September 2021 to ¥59,179 million for the same period in current year which was resulted from the factors as explained above.

Gross pay-outs

Gross pay-outs, being the aggregate cost of G-prizes and general prizes exchanged by customers, increased by ¥5,505 million, or 12.9%, from ¥42,781 million for the six months ended 30 September 2021 to ¥48,286 million for the same period in 2022 which corresponded with the rise in gross pay-ins.

Revenue margin

The revenue margin dropped by 1.2% from 19.6% for the six months ended 30 September 2021 to 18.4% for the same period in current year which was caused by the adjustment of pay-out ratio to stimulate customers' visit leading to slight decrease in revenue margin in the short run.

Revenue from amusement arcade business

Revenue from amusement arcade business surged from ¥97 million for the six months ended 30 September 2021 to ¥887 million for the same period in 2022. The amount comprised revenue derived from Vietnam and Cambodia amounting to ¥721 million and ¥166 million, respectively (30 September 2021: ¥93 million and ¥4 million, respectively). The hike was attributable to the lifting of COVID-19 restrictions as announced by the local governments, allowing all game arcades in both Vietnam and Cambodia to resume their businesses.

Other revenue

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

Vending machine income amounted to ¥191 million for the six months ended 30 September 2022. The increase of ¥11 million, or 6.1%, as compared to ¥180 million for the six months ended 30 September 2021 was attributable to the full resumption of operations of all pachinko halls after ending all quasi state-emergency curbs in March 2022.

Income from hotel operation amounted to ¥74 million for the six months ended 30 September 2022, recording a notable increase of ¥71 million as compared to the six months ended 30 September 2021 of ¥3 million. The increase in hotel income was resulted from the re-opening of hotel premises in November 2021 after a six months' closure for hotel retrofit.

Revenue from restaurant operations amounted to ¥318 million for the six months ended 30 September 2022. The rise of ¥203 million, or 176.5% as compared to ¥115 million for the six months ended 30 September 2021 was attributable to the full operation of restaurants in Japan following the cancelation of "shorten operating hours" requirement in late 2021, and the re-opening of YOKOCHO business in August 2021, which in turn generated additional revenue of ¥145 million and ¥58 million, respectively.

Hall operating expenses

Hall operating expenses increased by ¥734 million, or 8.6%, from ¥8,523 million for the six months ended 30 September 2021 to ¥9,257 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 depreciation expenses, amounting to ¥3,046 million, ¥2,259 million and ¥1,806 million, respectively, for the six months ended 30 September 2022 (30 September 2021: ¥2,835 million, ¥2,280 million and ¥1,894 million, respectively).

The rise in hall operating expenses was mainly resulted from impairment loss of ¥242 million which was recognised in current period; more frequent replacement of new pachinko and pachislot machines which was made during the current period; and increase in salaries paid to staff.

Administrative and other operating expenses

Administrative and other operating expenses amounted to ¥1,760 million for the six months ended 30 September 2022, recorded a decrease of ¥26 million, or 1.5%, as compared to the same period in prior year of ¥1,786 million. The drop in administrative expense was mainly due to continuous implementation of effective cost control as it was one of the major measures of the Group in maintaining a stable net return.

Finance costs

Finance costs, net amounted to ¥473 million for the six months ended 30 September 2022, recorded a drop of ¥95 million, or 16.7%, as compared to ¥568 million for the same period in 2021 as less bank borrowings were made during the current period.

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

Profit attributable to owners of the Company of ¥1,063 million was recorded for the six months ended 30 September 2022, as compared to ¥1,209 million for the six months ended 30 September 2021. The decrease in profit was mainly due to the significant decrease in other gains as lease concessions granted by landlords for the six months ended 30 September 2022 were much lower than the same period last year; offset with the increase in revenue during the six months ended 30 September 2022.

Basic earnings per share for the six months ended 30 September 2022 was ¥0.89 (30 September 2021: ¥1.01). The Board has declared an interim dividend of ¥0.17 per common share for the six months ended 30 September 2022 (30 September 2021: nil).

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-term 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 bank balances, borrowings, lease liabilities, working capital, total equity and gearing ratio of the Group as at 30 September 2022 and 31 March 2022, and operating cash flows before movements in working capital of the Group for the six months ended 30 September 2022 and 2021, respectively:

	As at 30 September 2022 ¥ million	As at 31 March 2022 ¥ million
Cash and cash equivalents	11,162	11,451
Bank deposits with maturity over 3 months	271	242
	<u>11,433</u>	<u>11,693</u>
Bank loans	5,879	5,715
Syndicated loans	4,759	5,926
Lease liabilities	30,258	30,689
	<u>40,896</u>	<u>42,330</u>
Working capital (<i>Note 1</i>)	1,142	1,015
Total equity	19,366	19,021
Gearing ratio (<i>Note 2</i>)	1.5	1.6

Note 1: Working capital being current assets less current liabilities.

Note 2: Gearing ratio is calculated as total borrowings less cash and cash equivalents divided by equity.

	For the six months ended 30 September	
	2022 ¥ million	2021 ¥ million
Operating cash flows before movements in working capital	<u>4,314</u>	<u>3,245</u>

As at 30 September 2022, net current assets of the Group totalled ¥1,142 million (31 March 2022: ¥1,015 million), and current ratio was 1.10 as at 30 September 2022 (31 March 2022: 1.08). As at 30 September 2022, there were cash and cash equivalents of ¥11,162 million (31 March 2022: ¥11,451 million), in which ¥9,718 million was denominated in Japanese Yen, ¥911 million was denominated in United States dollar, ¥341 million was denominated in Hong Kong dollar and ¥192 million was denominated in other currencies. As at 30 September 2022, the Group had total borrowings and lease liabilities of ¥40,896 million (31 March 2022: ¥42,330 million). Current portion of bank borrowings and current portion of lease liabilities amounted to ¥7,127 million as at 30 September 2022 (31 March 2022: ¥7,301 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 30 September 2022, the total bank borrowings amounted to ¥10,638 million (31 March 2022: ¥11,641 million), with average effective interest rates on bank borrowings ranged from 0.99% to 1.41% (31 March 2022: 0.93% to 1.62%) per annum. Approximately 7.5% of bank borrowings as at 30 September 2022 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 30 September 2022, the Group had three floating to fixed interest rate swap contracts with banks in Japan (i.e. the Group pays fixed interest rates and receives interests at floating rate). These interest rate swap contracts were entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the six months ended 30 September 2022, gain on fair value for interest rate swap contracts amounted to ¥5 million (For the six months ended 30 September 2021: ¥3 million).

The Group did not carry out significant foreign currency investment and its debts were all denominated in Japanese Yen as at 30 September 2022. 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, Cambodian Riel and Renminbi against Japanese Yen. The management is assessing the significance of the foreign currency exposures faced by the Group and will consider adopting appropriate measures to mitigate the risk, including but not limited to entering into currency hedges.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and lease liabilities less cash and cash equivalents, divided by total equity, was 1.5 as at 30 September 2022 (31 March 2022: 1.6).

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 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 2022 ¥ million	As at 31 March 2022 ¥ million
Property, plant and equipment	215	927
Right-of-use assets	716	3,402
Investment properties	–	–
Intangible assets	3	2
	<u>934</u>	<u>4,331</u>

CHARGES ON ASSETS

As at 30 September 2022 and 31 March 2022, the carrying values of charged assets were as below:

	As at 30 September 2022 ¥ million	As at 31 March 2022 ¥ million
Property, plant and equipment	9,306	9,542
Investment properties	584	592
Deposits and other receivables	198	166
	<u>10,088</u>	<u>10,300</u>

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 September 2022 and 31 March 2022.

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

During the six months ended 30 September 2022, 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 2022, the Group had 1,677 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 AND OTHER INFORMATION

CORPORATE GOVERNANCE

During the six months ended 30 September 2022, the Company has adopted and complied with all the applicable principles and code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”), with the exception for code provision C.2.1, which requires the roles of chairman and chief executive to be separated and should be performed by different individuals.

Code Provision C.2.1

Under code provision C.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 the 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 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the six months ended 30 September 2022. 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 2022.

CHANGE TO INFORMATION IN RESPECT OF DIRECTORS

There is no change in information of the Directors since the date of the Company's Annual Report 2022 which required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Board has declared an interim dividend of ¥0.17 per common share for the six months ended 30 September 2022 (30 September 2021: nil).

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed the unaudited condensed consolidated interim financial information and the Interim Report for the six months ended 30 September 2022 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 2022 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 2022 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

Chairman, Executive Director and Chief Executive Officer

Fukushima, Japan, 25 November 2022

As at the date of this announcement, the executive Directors are Hisanori TANIGUCHI, Akinori OHISHI and Masataka WATANABE; the non-executive Director is Hiroshi BANNAI; and the independent non-executive Directors are Michio MINAKATA, Yoshihiro KOIZUMI, Kuraji KUTSUWATA and Akihito TANAKA.

* for identification purpose only