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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 2019

RESULTS HIGHLIGHTS

- Gross pay-ins were ¥70,770 million (or HK$5,140 million#), recording a decrease of 0.6% as compared with the same period last year;
- Revenue was ¥14,391 million (or HK$1,046 million#), recording a decrease of 0.3% as compared with the same period last year;
- Profit before income tax was ¥893 million (or HK$65 million#), recording a decrease of ¥500 million (or HK$36 million) as compared with the same period last year;
- Profit for the period attributable to shareholders of the Company was ¥496 million (or HK$36 million#), recording a decrease of ¥382 million (or HK$28 million) as compared with the same period last year;
- Basic earnings per share of the Company was ¥0.41 (or HK$0.030#) (2018: ¥0.73);
- The Board has resolved to declare an interim dividend of ¥0.10 (or HK$0.007) per share for the six months ended 30 September 2019 (Six months ended 30 September 2018: ¥0.08 per share); and
- The Group operated 53 halls as at 30 September 2019.

Translated into Hong Kong dollar at the rate of ¥13.77 to HK$1.00, the exchange rate prevailing on 30 September 2019 (i.e. the last business day in September 2019).

* *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 2019 together with the comparative figures for the six months ended 30 September 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Six months ended 30 September 2019** **¥ million (Unaudited)**	2018 ¥ million (Unaudited)
Revenue	*4*	**14,391**	14,438
Other income	*5*	**441**	319
Other (losses)/gains, net	*5*	**(52)**	36
Hall operating expenses	*6*	**(10,850)**	(11,166)
Administrative and other operating expenses	*6*	**(2,348)**	(2,011)
Operating profit		**1,582**	1,616
Finance income		**31**	24
Finance costs		**(720)**	(247)
Finance costs, net	*7*	**(689)**	(223)
Profit before income tax		**893**	1,393
Income tax expense	*8*	**(516)**	(538)
Profit for the period		**377**	855
Profit for the period attributable to:			
Owners of the Company		**496**	878
Non-controlling interest		**(119)**	(23)
		377	855

	Note	Six months ended 30 September **2019** ***¥ million*** **(Unaudited)**	2018 *¥ million* (Unaudited)
Other comprehensive income			
Items that have been reclassified or may be subsequently reclassified to profit or loss			
Currency translation differences		**(20)**	173
Items that will not be reclassified to profit or loss			
Change in value of financial assets through other comprehensive income		**(124)**	(5)
Total comprehensive income for the period		**233**	1,023
Total comprehensive income attributable to:			
Owners of the Company		**351**	1,049
Non-controlling interest		**(118)**	(26)
		233	1,023
Earnings per share for profit attributable to owners of the Company			
— Basic and diluted (expressed in ¥ per share)	*9*	**0.41**	0.73

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 September 2019 *¥ million* (Unaudited)**	31 March 2019 *¥ million* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**24,097**	28,523
Right-of-use assets	*3*	**34,828**	–
Investment properties	*11*	**640**	650
Intangible assets	*11*	**1,655**	1,662
Prepayments, deposits and other receivables		**3,820**	4,208
Interest in an associate		**–**	–
Financial assets at fair value through profit or loss		**–**	100
Financial assets at fair value through other comprehensive income		**734**	911
Deferred income tax assets		**2,189**	1,588
		67,963	37,642
Current assets			
Inventories		**300**	109
Trade receivables	*12*	**89**	53
Prepayments, deposits and other receivables		**1,404**	1,020
Financial assets at fair value through profit or loss		**103**	–
Bank deposits with maturity over 3 months		**515**	43
Cash and cash equivalents		**14,129**	15,176
		16,540	16,401
Total assets		**84,503**	54,043

	Note	**30 September 2019**	31 March 2019
		¥ million	*¥ million*
		(Unaudited)	(Audited)
EQUITY			
Equity attributable to shareholders of the Company			
Share capital		**3,000**	3,000
Reserves		**23,798**	24,617
		26,798	27,617
Non-controlling interest		**(224)**	(106)
Total equity		**26,574**	27,511
LIABILITIES			
Non-current liabilities			
Borrowings	*14*	**10,941**	11,792
Lease liabilities	*3*	**32,699**	2,717
Provisions and other payables		**2,250**	2,226
Derivative financial instruments		**29**	27
		45,919	16,762
Current liabilities			
Trade payables	*13*	**178**	294
Borrowings	*14*	**4,440**	4,290
Lease liabilities	*3*	**2,787**	703
Accruals, provisions and other payables		**4,220**	4,353
Derivative financial instruments		**5**	4
Current income tax liabilities		**380**	126
		12,010	9,770
Total liabilities		**57,929**	26,532
Total equity and liabilities		**84,503**	54,043

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 Southeast Asian countries.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited on 8 April 2015.

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

2 BASIS OF PREPARATION

This condensed consolidated interim financial report for the six months ended 30 September 2019 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 report does not include all the notes of the type normally included in an annual financial report. Accordingly, this condensed consolidated interim financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2019, 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 2019, 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.

New standards and amendments to standards adopted by the Group

The following new standards and amendments have been issued and are effective for annual periods beginning on 1 April 2019:

IAS 19 (Amendments)	Employee Benefits
IAS 28 (Amendments)	Long-term interests in associates and joint ventures
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation
IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
Annual Improvements to IFRS	Annual improvements 2015–2017 Cycle

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 Leases.

The impact of the adoption of IFRS 16 is disclosed below. The other new or amended standards did not have any material impact on the Group's accounting policies.

Adoption of IFRS 16, "Leases"

The Group has adopted IFRS 16 retrospectively from 1 April 2019, but has not restated the comparatives for the period ended 30 September 2018 and year ended 31 March 2019, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening interim condensed consolidated statement of financial position on 1 April 2019.

(a) Adjustments recognised on adoption of IFRS 16

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

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

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

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

The recognised right-of-use assets relate to the following types of assets:

	30 September 2019	1 April 2019
	¥ million	*¥ million*
Buildings	**33,383**	32,566
Leasehold improvements	**1,363**	1,646
Equipment and tools	**82**	97
Total right-of-use assets	**34,828**	34,309

The following table shows the adjustment for change in accounting policy recognised for each individual line item. Line items that were not affected by the changes have not been included.

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

(i) Impact on segment disclosures and earnings per share

Segment EBITDA for the six months ended 30 September 2019, segment assets and segment liabilities as at ended 30 September 2019 changed as a result of the change in accounting policy as follows:

	Segment EBITDA *¥ million* *Increase*	Segment assets *¥ million* *Increase*	Segment liabilities *¥ million* *Increase*
Pachinko and pachislot hall operations	**1,465**	**29,720**	**29,703**
Amusement arcade operations	**124**	**942**	**957**
Others	**46**	**453**	**537**
	1,635	**31,115**	**31,197**

There was no material impact on earnings per share for the six months ended 30 September 2019 as a result of the adoption of IFRS 16.

(ii) Practical expedients applied

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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

The Group leases various offices, pachinko and pachislot halls and amusement arcades centres, equipment and motor vehicles. Rental contracts are typically made for fixed periods of 5 to 20 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the financial year ended 31 March 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise computer equipment and small items of office furniture.

Extension and termination options

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

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

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Six months ended 30 September	
	2019	2018
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Revenue		
Gross pay-ins	**70,770**	71,189
Less: gross pay-outs	**(57,993)**	(57,972)
Revenue from pachinko and pachislot hall business	**12,777**	13,217
Revenue from amusement arcades	**901**	768
Vending machine income	**245**	258
Revenue from hotel operation	**82**	77
Revenue from restaurant operations	**386**	118
	14,391	14,438

(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 and cash and bank balances. They exclude deferred income tax assets, and assets used for corporate functions including financial assets at fair value through profit or loss 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 2019 and 2018 are as follows:

	Six months ended 30 September 2019			
	Pachinko and pachislot hall operations Japan *¥ million* (Unaudited)	Amusement arcade operations Southeast Asia *¥ million* (Unaudited)	Others Japan and China *¥ million* (Unaudited)	Total *¥ million* (Unaudited)
Segment revenue from external customers recognised over time	13,022	901	468	14,391
Segment results	1,350	77	(235)	1,192
Corporate expenses				(299)
Profit before income tax				893
Income tax expense				(516)
Profit for the period				377
Other segment items				
Depreciation and amortisation expenses	(2,448)	(207)	(43)	(2,698)
Finance income	31	–	–	31
Finance costs *(Note)*	(674)	(45)	(1)	(720)
Capital expenditures	334	241	125	700

Note: Finance costs included interest expenses arisen from lease liabilities of ¥483 million (Note 7).

	Six months ended 30 September 2018			
	Pachinko and pachislot hall operations Japan	Amusement arcade operations Southeast Asia	Others Japan and China	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*
Segment revenue from external customers recognised 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 year				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

The segment assets as at 30 September 2019 and 31 March 2019 are as follows:

	Pachinko and pachislot hall operations Japan	**Amusement arcade operations Southeast Asia**	**Others Japan and China**	**Total**
	¥ million	*¥ million*	*¥ million*	*¥ million*
As at 30 September 2019				
Segment assets (Unaudited)	**71,836**	**2,046**	**2,270**	**76,152**
Unallocated assets				**6,162**
Deferred income tax assets				**2,189**
Total assets				**84,503**
As at 31 March 2019				
Segment assets (Audited)	42,933	1,003	1,821	45,757
Unallocated assets				6,698
Deferred income tax assets				1.588
Total assets				54,043

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 2019 *¥ million* (Unaudited)	As at 31 March 2019 *¥ million* (Audited)
Japan, country of domicile	**62,509**	34,016
Southeast Asia and China	**2,531**	1,027
	65,040	35,043

No single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 30 September 2019 and 2018.

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

	Six months ended 30 September 2019 *¥ million* (Unaudited)	Six months ended 30 September 2018 *¥ million* (Unaudited)
Other income		
Rental income	**230**	82
Income from expired IC and membership cards	**15**	15
Dividend income	**28**	27
Income from scrap sales of used pachinko and pachislot machines	**153**	179
Others	**15**	16
	441	319
Other (losses)/gains, net		
Loss on disposal of financial assets at fair value through profit or loss	**–**	(2)
Gain on fair value of financial assets through profit or loss	**2**	–
(Loss)/gain on fair value for interest rate swaps	**(1)**	3
Loss on disposal of property, plant and equipment	**(54)**	(9)
Loss on disposal of investment properties	**–**	(7)
Net exchange gain	**1**	51
	(52)	36

6 OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 30 September 2019 ¥ million (Unaudited)	2018 ¥ million (Unaudited)
Employee benefits expenses		
— Hall operations	**2,785**	2,716
— Administrative and others	**896**	823
Operating lease rental expense in respect of land and buildings	**150**	1,523
Depreciation of property, plant and equipment	**1,325**	1,248
Depreciation of right-of-use assets	**1,329**	–
Depreciation of investment properties	**10**	10
Amortisation of intangible assets	**34**	33
Pachinko and pachislot machines expenses *(Note)*	**3,222**	3,374

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 2019 ¥ million (Unaudited)	2018 ¥ million (Unaudited)
Finance income		
Bank interest income	**3**	2
Other interest income	**28**	22
	31	24
Finance costs		
Bank borrowings	**(105)**	(96)
Lease liabilities	**(566)**	(98)
Provision for unwinding discount	**(49)**	(53)
	(720)	(247)
Finance costs, net	**(689)**	(223)

8 INCOME TAX EXPENSE

	Six months ended 30 September	
	2019	2018
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Current tax		
— Japan	**551**	507
— Other Asian countries	**39**	27
	590	534
Deferred income tax	**(74)**	4
	516	538

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% (30 September 2018: 30.2%) for the period ended 30 September 2019. For taxation on Asian countries in which the Group operates, the rates range from 17.0% to 20.0% (30 September 2018: same).

No provision for Hong Kong profits tax has been made for the six months ended 30 September 2019 and 2018 as the Group did not generate any assessable profits arising in Hong Kong during both periods.

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 September 2019 and 2018.

	Six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
Profit attributable to shareholders of the Company *(¥ million)*	**496**	878
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 per share *(¥)*	**0.41**	0.73

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 2019 and 2018.

10 DIVIDENDS

During the six months ended 30 September 2019, the Company paid dividend of ¥84 million (¥0.07 per common share) to their shareholders in respect of the year ended 31 March 2019.

The Board proposes the payment of an interim dividend of ¥0.10 per common share totalling ¥120 million in respect of the six months ended 30 September 2019 (30 September 2018: ¥96 million). This 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 2019, the Group incurred expenditures of approximately ¥650 million and ¥50 million for property, plant and equipment and intangible assets, respectively (Six months ended 30 September 2018: ¥426 million, ¥15 million and ¥1 million for property, plant and equipment, investment properties and intangible assets, respectively).

No impairment loss for property, plant and equipment was incurred by the Group for the six months ended 30 September 2019 (Six months ended 30 September 2018: Nil).

During the six months ended 30 September 2019, the net book amounts of disposed property, plant and equipment amounted to approximately ¥73 million (Six months ended 30 September 2018: ¥9 million and ¥7 million, respectively for properties, plant and equipment and investment properties). During the six months ended 30 September 2019, there was no disposal of intangible asset (Six months ended 30 September 2018: Nil).

Please also refer to Note 3 on the impact of adoption of IFRS 16.

12 TRADE RECEIVABLES

	30 September 2019	31 March 2019
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Trade receivables	**89**	53

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 2019	31 March 2019
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Less than 30 days	**89**	52
31 days to 90 days	**–**	1
	89	53

13 TRADE PAYABLES

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

	30 September 2019	31 March 2019
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Less than 30 days	**166**	47
31–90 days	**12**	242
Over 90 days	**–**	5
	178	294

14 BORROWINGS

	30 September 2019	31 March 2019
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Non-current portion		
Bank loans	**2,813**	3,247
Syndicated loans	**8,128**	8,545
	10,941	11,792
Current portion		
Bank loans	**1,048**	1,047
Syndicated loans	**3,392**	3,243
	4,440	4,290
Total borrowings	**15,381**	16,082

15 SUBSEQUENT EVENTS

(i) On 29 October 2019, Nexia Inc. ("Nexia"), a wholly-owned subsidiary of the Group entered into a sale and purchase agreement with an independent third party (the "Purchaser"), pursuant to which Nexia will sell and the Purchaser will purchase properties located in Fukushima (the "Properties") at a cash consideration of ¥1,985 million (the "Disposal"). The Disposal is expected to be completed on 27 November 2019 and the proceeds are intended to be used for repaying bank loans of the Group and to improve the financial position and increase general working capital for the Group. Upon completion of the Disposal, the Group and the Purchaser will enter into a lease agreement for continuous operation of pachinko hall at the Properties after the Disposal.

(ii) In April 2019, Niraku Corporation ("Niraku"), a wholly-owned subsidiary of the Group entered into a 20-year lease agreement with an independent third party to lease properties located in Fukushima (the "Properties") (the "Head Lease"). Subsequent to the period end date in October 2019, a separate agreement between the Group and another independent third-party (the "Lessee") to sub-lease the Properties to the Lessee for a period of 19 years ("Sub-lease") has been effected. Such arrangement is intended to prevent competitors from occupying the Properties for pachinko and pachislot hall operations as the Properties are located near to a pachinko and pachislot hall of the Group. The rental payments under the Head Lease and the Sub-lease amounted to approximately ¥84 million and ¥96 million per year, respectively. The right-of-use assets arising from the Head Lease will be derecognised upon the recognition of the lease receivables from the Sub-lease, with the resulting gains or losses to be recorded in the consolidated statements of profit or loss for the year ending 31 March 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Pachinko business

The pachinko industry remains severe with markets shrinking across the entire industry. More pachinko hall operators are experiencing management difficulties, such as attracting new young players and retaining existing customers, and a trend towards closing of pachinko halls.

Furthermore, the pachinko industry is likely to be confronted with other issues which further deter its profitability, such as revision of gaming machine regulations, increase in consumption tax, and constitutional measures to protect against gambling dependency following the passing of the "IR Promotion Act".

Given this industry environment, the Group, in compliance with various regulations, had implemented various sales policies to achieve continuous profitable growth and cost efficiency, while at the same time striving to provide a gaming environment that meets the needs of diverse fans. These measures included opening of new halls, seeking opportunity for acquisitions of other halls and allying with business partners. The Group has also continuously configured products to accommodate the characteristics of each region, improve the gaming environment and customer service, as well as implement cost efficiency plans and work in unity to create halls that win the support of customers. These measures are proven to be successful as the Group has seen that the sales scale is stable with improvement in customer visits.

Amusement arcade business

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

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

Restaurant business

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

In mid-2019, we opened the Shenzhen Upper Hills YOKOCHO which is located inside an urban complex centre named Shenzhen Upper Hills. The Shenzhen Upper Hills YOKOCHO comprises a food court of approximately 3,000 square meters in area, with the participation of 16 diversified well-known Japanese restaurants, cafés, and sake bars. By fusing and coordinating these various aspects in a cross-cutting and innovative manner, the Group is confident that this investment will enhance the market presence of the Group in food and beverage industry.

STRATEGIES AND FUTURE DEVELOPMENT

During the six months ended 30 September 2019, the Group had taken several moves over both restaurant and gaming businesses. In respect of food and beverage business, in June 2019, the Group opened a Japanese food court in Shenzhen Upper Hills commercial building under the concept of YOKOCHO, accommodating 16 diversified well-known Japanese restaurants, café and sake bar. The Group also launched 2 cafés inside the vicinity of pachinko hall named "Komeda Café". "Komeda Café" provides a cosy place for both pachinko and non-pachinko players to enjoy drinks and light meals, and the Group plans to continue rolling out more cafés inside the hall vicinity. Further, at the end of March 2019, a restaurant under the brand "Lizarran" was opened. The Group is confident that moving ahead, in developing a larger number of restaurants, it will be able to fully utilize all of the efficient store operation, service, and quality maintenance and management systems we have cultivated through our pachinko business. The Group plans to continue expanding these restaurants in Japan's major urban areas.

Grasping the economic growth of Asian countries and the expansion of leisure market in these countries, the Group will continue to open new outlets in Asia to develop a wide variety of amusement businesses.

Further, with the 40% equity investment in Yes! E-Sports Asia Holdings Limited ("YEAH"), a company with its principal activity being eSports business, the Group has opened up a new business stream in Asia. YEAH is established to be a hub for developing and expanding the eSports business. Through allying with strategic partners, it allows the Group to popularize eSports business in Japan as well as other Asian countries, increasing the Group's market and business diversification.

As for management strategies, the Group will make bold strategic investments in the domestic Japanese amusement industry, centering on the pachinko hall business, and at the same time, solidify each overseas business in order to secure a stable earnings and growth path. These strategies include actively and intensively investing management resources in the domestic pachinko business, building a solid foundation for businesses with potential growth, and improving the corporate value and establishing a stable earnings structure.

FINANCIAL REVIEW

Gross pay-ins

Gross pay-ins recorded a slight decrease of ¥419 million, or 0.6%, from ¥71,189 million for the six months ended 30 September 2018 to ¥70,770 million for the same period in current year. The decline was mainly attributable to the (i) closure of two loss-making halls during the year ended 31 March 2019 and (ii) introduction of gaming regulation which all pachinko hall operators are required to replace the old regulated pachinko and pachislot machines with new standard machines (machines with lower jackpot size to de-emphasize the gaming element). The change of regulation in return chased away the hall traffic as these new machines are less popular among the players.

Gross pay-outs

Gross pay-outs, being the aggregate cost of G-prizes and general prizes exchanged by customers, increased by ¥21 million, or 0.04%, from ¥57,972 million for the six months ended 30 September 2018 to ¥57,993 million for the same period in 2019. The slight increase mainly due to adjustment on pay-out ratio to improve revenue.

Revenue and revenue margin from pachinko and pachislot business

Revenue from pachinko and pachislot business declined from ¥13,217 million for the six months ended 30 September 2018 to ¥12,777 million for the same period in current year. The drop in revenue by ¥440 million or 3.3% was primarily due to shrinkage of customer base as discussed above.

The revenue margin decreased by 0.5% from 18.6% for the six months ended 30 September 2018 to 18.1% for the same period in current year. The decline in revenue margin was due to increase in pay-out ratio to boost up customer visits which, in the short term, lowered the profit margin.

Revenue from amusement arcade business

Revenue from amusement arcade business increased from ¥768 million for the six months ended 30 September 2018 to ¥901 million for the same period in 2019. The amount comprised revenue derived from Vietnam and Cambodia amounting to ¥707 million and ¥194 million, respectively (30 September 2018: ¥655 million and ¥113 million, respectively). The increase in revenue was attributable to opening of new amusement centres in January 2019 and June 2019 which generated additional income of ¥25 million and ¥6 million, respectively, together with continuous growth in each game centre.

Other revenue

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

Vending machine income amounted to ¥245 million for the six months ended 30 September 2019. The slight decrease of ¥13 million as compared to ¥258 million for the same period in 2018 was resulted from the drop in customer visits.

Income from hotel operations amounted to ¥82 million for the six months ended 30 September 2019 with the average occupancy rate of 75%. Income derived from hotel operation increased as a result of rise in occupancy rate.

Revenue from restaurants amounted to ¥386 million for the six months ended 30 September 2019. The surge of ¥268 million as compared to the same period in 2018 was mainly attributable to the opening of one Lizarran restaurant, two Komeda Cafés in pachinko halls close to the 2019 financial year end and commencement of YOKOCHO business in July 2019 which generated addition revenue of ¥53 million, ¥53 million and ¥162 million, respectively.

Hall operating expenses

Hall operating expenses decreased by ¥316 million, or 2.8%, from ¥11,166 million for the six months ended 30 September 2018 to ¥10,850 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 ¥3,222 million, ¥2,785 million and ¥2,265 million, respectively, for the six months ended 30 September 2019 (30 September 2018: ¥3,374 million, ¥2,716 million and ¥1,230 million, respectively).

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

Administrative and other operating expenses

Administrative and other operating expenses increased by ¥337 million, or 16.8% from ¥2,011 million for the six months ended 30 September 2018 to ¥2,348 million for the same period in 2019. The increase in expenses was due to (i) increase in staff costs subsequent to opening of YOKOCHO restaurants in China which requires employees to fill up different posts; and (ii) increase in depreciation expense and corresponding drop in rental expenses as a result of adoption of IFRS 16 Leases.

Finance costs

Finance costs, net recorded a surge of ¥466 million, or 209.0%, from ¥223 million for the six months ended 30 September 2018 to ¥689 million for the same period in 2019. The drastic increase was resulted from the adoption of IFRS 16 Leases which caused a significant amount of interest expenses from lease liabilities being recognised in current period.

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

Profit attributable to shareholders of the Company of ¥496 million was recorded for the six months ended 30 September 2019, as compared to ¥878 million for the six months ended 30 September 2018. Apart from decrease in pachinko revenue, the fall in profit was mainly due to the effect of adoption of IFRS 16 Leases which increased total expenses of ¥178 million.

Basic earnings per share was ¥0.41 (30 September 2018: ¥0.73). The Board has resolved to declare an interim dividend of ¥0.10 (or HK$0.007) per share for the six months ended 30 September 2019 (30 September 2018: ¥0.08 per share).

CAPITAL STRUCTURE

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

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

The table below sets forth the information regarding the cash and bank balances, bank borrowings, lease liabilities, working capital, total equity and gearing ratio of the Group as at 30 September 2019 and 31 March 2019, and operating cash flows before movements in working capital of the Group for the six months ended 30 September 2019 and 2018, respectively:

	As at 30 September 2019	As at 31 March 2019
	¥ million	*¥ million*
Cash and cash equivalents	**14,129**	15,176
Bank deposits	**515**	43
	14,644	15,219
Bank loans	**3,861**	4,294
Syndicated loans	**11,520**	11,788
Lease liabilities *(Note)*	**3,006**	3,420
	18,387	19,502
Working capital	**4,530**	6,631
Total equity	**26,574**	27,511
Gearing ratio	**69.2%**	70.9%

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

	For the six months ended 30 September	
	2019	2018
	¥ million	*¥ million*
Operating cash flows before movements in working capital	**4,345**	2,955

Net current assets of the Group totalled ¥4,530 million as at 30 September 2019 (31 March 2019: ¥6,631 million), and current ratio was 1.38 as at 30 September 2019 (31 March 2019: 1.68). As at 30 September 2019, there were cash and cash equivalents of ¥14,129 million (31 March 2019: ¥15,176 million), in which ¥12,974 million was denominated in Japanese Yen, ¥847 million was denominated in United States dollar, ¥221 million was denominated in Hong Kong dollar and ¥87 million was denominated in other currencies. Excluding the impact on adoption of IFRS 16 Leases, the Group had total borrowings of ¥18,387 million as at 30 September 2019 (31 March 2019: ¥19,502 million). Current portion of borrowings and current portion of lease liabilities amounted to ¥4,999 million as at 30 September 2019 (31 March 2019: ¥4,993 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 30 September 2019, the total bank borrowings amounted to ¥15,381 million (31 March 2019: ¥16,082 million), with average effective interest rates on bank borrowings ranged from 0.92% to 1.80% (31 March 2019: 0.99% to 1.91%) per annum. Approximately 9.1% of bank borrowings as at 30 September 2019 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 30 September 2019, the Group had three floating to fixed interest rate swap contracts with a bank in Japan (i.e. the Group pays fixed interest rates and receives interests at floating rate). These interest rate swap contracts were entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the six months ended 30 September 2019, the loss on fair value for interest rate swap contracts amounted to ¥1 million.

The Group did not carry out any foreign currency investment and its debts were all denominated in Japanese Yen as at 30 September 2019. As the functional currencies of certain subsidiaries are different from the Company, the Group will be exposed to foreign exchange risk arising from such exposure, namely in Singapore Dollar, Vietnamese Dong, Cambodian Riel and Renminbi against Japanese Yen. The management is assessing the significance of the foreign currency exposures faced by the Group and will consider adopting appropriate measures to mitigate the risk, including but not limited to entering into currency hedges.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and obligations under finance leases, divided by total equity, was 69.2% as at 30 September 2019 (31 March 2019: 70.9%).

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 2019 ***¥ million***	As at 31 March 2019 *¥ million*
Property, plant and equipment	**650**	5,084
Investment properties	**–**	14
Intangible assets	**50**	83
	700	5,181

CHARGES ON ASSETS

As at 30 September 2019 and 31 March 2019, the carrying values of charged assets were as below:

	As at 30 September 2019 ***¥ million***	As at 31 March 2019 *¥ million*
Property, plant and equipment	**10,803**	11,050
Investment properties	**640**	650
Deposits and other receivables	**179**	180
	11,622	11,880

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 September 2019 and 31 March 2019.

CAPITAL COMMITMENTS

The outstanding commitments not provided for as at 30 September 2019 and 31 March 2019 are as follows:

	30 September 2019 ***¥ million***	31 March 2019 *¥ million*
Contracted but not provided for		
Purchase of property, plant and equipment	**188**	19

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

During the six months ended 30 September 2019, the Group did not conduct any significant investments, material acquisitions or disposals. Save for those disclosed in this interim report, the Group had no plan authorised by the Board for other material investments or additions of capital assets as at the date of this interim report.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2019, the Group had 2,110 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 2019, the Company has adopted and complied with all the applicable principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), with the exception for code provision A.2.1, which requires the roles of chairman and chief executive to be separate and should be performed by different individuals, and code provision E.1.3, which requires that notice for an annual general meeting should be sent to the shareholders at least 20 clear business days before the meeting.

Code Provision A.2.1

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

Code Provision E.1.3

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

Under the Companies Act and the Articles of Incorporation, the Company is required to hold an AGM within three months after the expiration of each financial year (i.e. on or before 30 June 2019 for the financial year ended 31 March 2019).

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

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 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the six months ended 30 September 2019. 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 2019.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of ¥0.10 (or HK$0.007) per share for the six months ended 30 September 2019 (30 September 2018: ¥0.08 per share).

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 2019 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 2019 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 2019 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, 22 November 2019

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 Hiroaki MORITA, Michio MINAKATA, Yoshihiro KOIZUMI and Kuraji KUTSUWATA.

* *for identification purpose only*