

NIRAKU GC HOLDINGS INC.*
株式会社ニラク・ジーシー・ホールディングス
(the “Company”)

INTERNAL CONTROL POLICY

19 December 2014

** for identification purpose only*

Internal Control Framework

1. The Company's pachinko and pachislot hall operations are subject to risks of loss resulting from employee or customer's dishonesty. Minimising such risks requires a set of robust procedures that can control the authorisation, accountability and safekeeping of pachinko balls and tokens, cash and pachinko-related equipments, such as pachinko and pachislot machines. The Company implements anti-cheating and anti-counterfeiting surveillance systems designed to detect irregularities incurred during its daily operations, which includes a surveillance system and an internal audit team which is responsible for hall operational audit.
2. Prevention and investigation of fraud and cheating in the Company's pachinko halls are primarily carried out by its hall operations staff with the cooperation of its internal audit team.
3. To ensure the integrity of operations and compliance with operational policies and procedures, the Company's internal audit team operates independently from its hall operation units.

Fraud Prevention and Detection Measures

4. The Company have in place measures in its pachinko and pachislot hall operations to detect potential fraud, cheating or counterfeiting activities. For instance, the pachinko and pachislot machines have mechanisms to detect and reject any counterfeit bank notes inserted. Each of the Company's pachislot tokens feature a "NIRAKU" Stamp.
5. To ensure that no altered or counterfeit pachinko balls or pachislot tokens are brought into or taken out of the Company's pachinko halls, the entrances of the pachinko halls are monitored by the hall operation staff supported by surveillance cameras.

Hall Management System

6. The Company's hall management system (licensed from a third party supplier) captures data on the number of pachinko balls and pachislot tokens played and paid out at each machine.
7. At the end of each day, the assistant hall managers in each hall reconcile the opening balance of balls and pachislot tokens against the ending balance, and carry out investigation on any discrepancies greater than a certain number of balls or pachislot tokens, which may vary depending on the number of machines in the relevant hall.

Anti-Modification Controls

8. The operations of the Company's pachinko and pachislot machines are monitored by surveillance cameras and the hall computers.
9. The hall operation staff who patrol the hall and monitor the footage of surveillance cameras as well as the hall computers will detect and prevent any attempts to open the machines and tamper with the pin angle maintenance adjustments, payout setting adjustments or otherwise illegally manipulate the machines.
10. The hall operation staff are responsible for daily tasks relating to machine maintenance, such as cleaning.

11. The hall operation staff are prohibited from performing any maintenance on a machine that results in a modification of its systems, electronic components, or any other major changes affecting machine function. Such adjustments are done by machine manufacturers with the requisite certification from regulatory authorities and subject to regulatory approval before that adjustment or modification is made.
12. The hall managers are authorised to check and make daily adjustments to the pachinko machines in order to ensure continued compliance with relevant regulations.

Hall Operation Staff and Internal Audit Team

13. The hall operation staff are required to regularly patrol the hall to monitor the machines and equipments for alerts and errors, player traffic inside the halls, and certain customer behaviours that may be indicative of fraudulent acts, and to report any perceived irregularities to the hall managers.

Cooperation with Police

14. If suspicious activity which may constitute a crime is identified, the Company will report such activity to the local police for further investigation.
15. The Company's pachinko halls also cooperate with the Company's other pachinko halls within the relevant operation area to alert and notify other halls of persons suspected of cheating or engaging in other suspicious or illegal activity.
16. The Company's pachinko halls exchange surveillance photos of such persons to ensure that such persons are not allowed entry into the Company's pachinko halls.

Cash and G-prize Handling Measures

17. Handling of significant amounts of cash and G-prizes is required to be done in the presence of at least two staff, who are either a hall manager, an assistant hall manager or the designated staff in charge of cash management, and such activity is recorded by surveillance cameras. All significant amounts of cash for daily use are stored in the safe(s) located inside a separate locked room in each of the pachinko halls which is only accessible by the hall managers, assistant hall managers and the designated staff in charge of cash management, while G-prizes are stored in the locked drawers at each hall counter. The key and password of the safe and the key of the hall counter drawer of each of the pachinko hall are kept by the hall managers, assistant hall managers and designated staff in charge of cash management.
18. The hall managers, assistant hall managers or the designated staff in charge of cash management will conduct an inventory check of cash and G-prizes after the close of business each day, regardless of whether the safe(s) or locked drawer(s) have been accessed during the day, and cross-check the total actual amount on hand against the daily system record which is updated to reflect all inventory movements of cash or G-prizes.
19. Based on the inventory record, the hall managers or assistant hall managers determine the quantity of G-prizes to be purchased in order to replenish the G-prize inventory to an appropriate level. Purchase orders for G-prizes must be maintained in the prize management system, which are authorized to be used for prize ordering and inventory management. The hall managers or assistant hall managers approve G-prize purchase orders in the prize management system.

20. G-prizes are delivered in the presence of the hall managers, assistant hall managers or the designated staff in charge of cash management. Quantity of G-prizes delivered are cross-checked against purchase orders and inventory records in the prize management system and updated accordingly, which the headquarters have real-time access. The payments for such deliveries must similarly be also handled by these authorized staff members.
21. The staff in charge of cash management and the assistant hall managers carry out cash count results of which is stored in the Company's sales reporting system and sign off the daily hall reports at the close of each business day, subject to the ultimate approval of each hall manager. The Company's headquarters have real-time access to the sales reporting system as well as access and review authority to daily hall reports of each pachinko hall.
22. The headquarters perform a daily review of sales record and the amount of cash collected and reported by each hall in the sales reporting system. Reconciliation between the daily statements of cash collection provided by the security transportation company, an independent third party, and the amount reported by each pachinko hall is performed on a monthly basis.

Cash Management and Collection Guidelines

23. A maximum amount of ¥35 million cash, which includes change, pay-ins and money for buying G-prize, will be kept at each pachinko hall for daily operations.
24. The Company contracts with security transportation company, an independent third party, for the collection of cash in excess of the amount necessary for daily operations. Such excess cash will be deposited into a secure safe that is located in each of the pachinko halls, which is only accessible for collection by the transportation company. Upon deposit into the safe, a deposit slip is automatically generated, and the risks of loss will be transferred to the transportation company.
25. The transportation company will collect cash from the Company's safes on a regular basis ranging from daily to weekly, which may vary depending on the number of machines in the relevant hall, transport it to the bank and deposit the cash into the Company's account.
26. The Company will reconcile the amount collected by the transportation company against the amount credited to the Company's bank accounts on a monthly basis.

Financial Statement Reconciliation

27. The Company's accounting system, which is licensed from an independent third party supplier, will be used for accounts preparation.
28. The Company's finance department reconciles its cash balances with various records, including bank-in statements provided by the transportation company and the amount of cash collected and reported by pachinko halls in the sales reporting system. The accounting entries which record cash bank-ins are subject to approval from the designated personnel in the Company's finance department in the accounting system.

Prize Management System

29. The Company's prize management system keeps up-to-date inventories of various prizes, including G-prizes. This enables the prize management system to keep up-to-date and accurate inventories, including tracking transactions in which customers exchange pachinko balls or pachislot tokens for prizes. Daily reports will be generated and reviewed by the hall managers in which irregularities such as abnormal increases in the volume of G-prizes being exchanged can be detected. These information are also accessible by the Company's headquarters to identify any abnormalities.

International Controls related to Information Technology and Computer Systems

30. The Company's information technology department supports several systems which are accessible by authorised employees in order to ensure smooth operations. To ensure the security of the information technology systems, the Company implements the following measures:
- access rights to the various systems are assigned to employees based on their designated roles and responsibilities;
 - the Company's major systems, including the prize management system, hall computers, sales reporting system, accounting system and human resources and payroll system are password-protected;
 - the Company's network will be protected by a firewall and anti-virus software, and access is restricted to employees only;
 - the Company's computing facilities in Tokyo (東京都) and Koriyama (郡山市) are accessible only by authorised personnel;
 - to protect the Company's information, the Company has a backup plan in place for critical systems and data. Full backups are performed on a daily basis; and
 - the Company will establish a formal disaster recovery plan in the event that future disasters occur, which includes off-site backup of data.