



羅兵咸永道

The Board of Directors
株式会社ニラク・ジー・シー・ホールディングス
NIRAKU GC HOLDINGS, INC.*
1-39 Hohaccho 1-chome
Kooriyama-shi, Fukushima
Japan

** for identification purpose only*

24 March 2015

INDEPENDENT ASSURANCE REPORT

To: The Directors of 株式会社ニラク・ジー・シー・ホールディングス NIRAKU GC HOLDINGS, INC.*

We have been engaged to perform a limited assurance engagement on the design and operation of certain anti-money laundering (“AML”) controls of 株式会社ニラク・ジー・シー・ホールディングス NIRAKU GC HOLDINGS, INC.* (“the Company”, and, together with its subsidiaries, the “Group”) which have been put in place for the period 1 October 2014 to 28 February 2015 to achieve selected internal control objectives that have been adopted by the directors of the Company (the “Directors”). These selected internal control objectives have been determined by the Directors of the Company with reference to relevant principles or requirements of the guidance paper entitled “International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation” (the “FATF Guidance Paper”) issued by the Financial Action Task Force (“FATF”) in 2012 and relevant principles or requirements of the Act on Control and Improvement of Amusement Business etc.* (風俗営業等の規制及び業務の適正化等に関する法律) of Japan (Act No. 122 of 1948) (“the Amusement Business Law”). The AML controls which have been put in place by the Directors of the Company are designed to achieve the aforementioned internal control objectives.

Internal Control Objectives

The following internal control objectives (the “Internal Control Objectives”) have been adopted by Directors of the Company with reference to relevant principles or requirements of the FATF Guidance Paper and the Amusement Business Law mentioned above.

*PricewaterhouseCoopers Ltd., 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Governance

- Appropriate management oversight to be in place with a focus on the mechanism for determining and assigning general and specific responsibilities to different levels of management to ensure the effective maintenance of AML controls and mitigation of risks.
- Appropriate AML risk assessment and classification processes to be in place to ensure that risks are assessed and mitigated on a periodic basis.
- Contracts between the Group and G-prize wholesalers to be periodically reviewed, particularly in relation to how the G-prize wholesalers are paid by the Group in exchange for the G-prizes.

Policies and procedures

- AML policies and procedures to be in place commensurate with the money laundering risks present which are to be regularly updated and effectively circulated for awareness purposes.

Due Diligence

- Appropriate due diligence procedures to be conducted (including but not limited to background checks with respect to criminal records, employment history and financial information) and documented on the Group's senior management, potential incoming management, shareholders and pachinko hall operators to amongst other things, identify and avoid connections to anti-social forces (as defined in the Amusement Business Law) and ensure high standards of integrity. Such procedures to include screening of individuals against external search engines such as SP Networks Co., Ltd.* (株式会社エス・ピー・ネットワーク) to identify high risk individuals.
- Appropriate due diligence to be conducted on the Group, G-prize wholesalers and G-prize buyers to ensure (i) neither party has the ability to exercise control (indirectly or directly) over the other, (ii) G-prizes are purchased at market value and are not directly returned from the G-prize buyer to the pachinko halls and (iii) none of the Company, G-prize wholesaler or G-prize buyer are connected with anti-social forces (as defined under to relevant Japan law).
- Written representations to be obtained on a periodic basis from the G-prize wholesalers confirming (i) their independence from the Group (ii) their independence from the G-prize buyers with whom they conduct business and (iii) their shareholders, directors and G-prize buyers with which they conduct business with do not have any connections with anti-social forces (as defined under to relevant Japan law).
- Written representations to be obtained on a periodic basis from G-prize buyers confirming their independence from the Group and G-prize wholesalers and that G-prizes are only paid for using cash and not bank transfers, cheques or equivalent.

- External reputable corporate data research agencies to be engaged to provide enhanced due diligence information for any potentially suspicious customers or those customers with whom there is an intention to conduct transactions exceeding a predefined transaction threshold of ¥500,000.

Transaction Monitoring

- For any pachinko hall IC members and other customers the nature of transactions to be monitored on an on-going basis to help identify any suspicious or unusual behaviour.
- In pachinko halls, there is to be continuous monitoring of the automated systems in place, including but not limited to the Company's G-prize management system, information technology system and pachinko hall computers, as well as analysis of financial and operating data, to monitor and detect unusual fluctuations that may indicate suspicious activity.
- The adequacy and appropriateness of automated system parameters and thresholds of relevant systems to be reviewed periodically.
- Each pachinko hall to be required to compare the number of balls/tokens played, with those exchanged into G-prizes to detect any balls/tokens that were exchanged into G-prizes without being played.
- Pachinko hall operators to be required to conduct periodic checks of machines throughout operating hours to detect any balls/tokens used for any purpose other than play in machines.
- Pachinko halls to have in place surveillance cameras to record play or attempted tampering of pachinko/pachislot machines
- Pachinko hall managers to be rotated on a periodic basis amongst different pachinko halls to help prevent collusion amongst staff
- Recording of customer identification information and notification of the Company's management to be in place for any transaction in which pachinko balls totalling ¥ 500,000 or more are exchanged for G-Prizes (per transaction).

Suspicious Transaction Reporting

- Sufficient customer information to be retained and assessed by the Company to enable effective evaluation of suspicious transactions or behaviour.
- Appropriate guidance to be in place to ensure the timeliness, appropriateness and quality of both internal reporting to the Company's headquarters and external disclosure to relevant authorities

- Whistleblowing procedures to be established to receive and assess internal reports of suspicious activities.

Record Keeping

- Customer and transactions information to be appropriately documented and maintained.

Internal audit functions

- Internal audit to exercise adequate oversight of key aspects relating to the prevention and detection of money laundering with respect to the pachinko operations. This should include (i) an inspection of each pachinko hall at least once every two months, (ii) periodic reviews of the Company's compliance framework and effectiveness of its AML measures, (iii) verification and testing of the Company's compliance with AML measures and (iv) reporting any findings to the Company's Audit Committee.

Staff awareness and training

- Mandatory and regular AML training programs to be conducted to provide staff with sufficient knowledge of AML policies and procedures to help facilitate the detection of suspicious or unusual transactions and behaviour.

Directors' Responsibility for the AML controls

The Directors of the Company are responsible for determining the Internal Control Objectives and designing, implementing, effectively operating and maintaining AML controls to achieve the Internal Control Objectives related to the FATF Guidance Paper and the Amusement Business Law.

Practitioner's Responsibility

It is our responsibility to express a conclusion on the design and operation of the Company's AML controls to achieve the Internal Control Objectives for the period 1 October 2014 to 28 February 2015 based on our work performed and to report our conclusion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Within the scope of the engagement we did not provide any assurance of the Company's compliance with the FATF Guidance Paper and the Amusement Business Law.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance as to whether any matters come to our attention that causes us to believe that the AML controls were not designed and operating in all material respects, to achieve the Internal Control I Objectives for the period 1 October 2014 to 28 February 2015.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on the practitioner's judgment, including the assessment of the risks as to whether the AML controls were designed and operating in all material respects, to achieve the Internal Control Objectives. Within the scope of our work we performed amongst others the following procedures:

- Conducted interviews with key management personnel for corroborative enquiry purposes and to gain an understanding of the governance around AML and how training on AML has been implemented by the Company ;
- Reviewed policies and procedures to obtain an understanding of the design of AML controls in place;
- Reviewed other relevant documentation pertaining to the above mentioned control objectives to the extent that it was relevant to the design of AML controls in place; and
- Tested internal controls through a combination of inspection and observation of control procedures on a sample basis as deemed appropriate.

Inherent Limitation

We draw attention to the fact that the procedures performed, and the report, includes certain inherent limitations that can influence the reliability of the information. Accordingly, errors or irregularities may occur and may not be detected. Such procedures cannot guarantee protection against fraudulent collusion. It should be noted that we cannot guarantee that any regulatory authority would not reach an alternative conclusion (based upon its own interpretation of the legislation, regulations and prevailing industry practices), nor can our findings be considered legal advice. Furthermore, our conclusion is based on historical information and the projection of any information or conclusions contained in this report to any future period would be inappropriate.

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the AML controls put in place by the Company were not designed and operated in all material respects, to achieve the Internal Control Objectives for the period 1 October 2014 to 28 February 2015.

Restriction on Use and Distribution

Our Report is intended solely for the use of the Company in connection with the submission to The Stock Exchange of Hong Kong Limited and to the Securities and Futures Commission and for inclusion in the prospectus of the Company in connection with its proposed listing. This report may not be suitable for other purposes. This report is not intended to be, and should not be distributed to or used for any other purpose.

Yours faithfully

For and on behalf of PricewaterhouseCoopers Limited

Duncan Fitzgerald

Director