

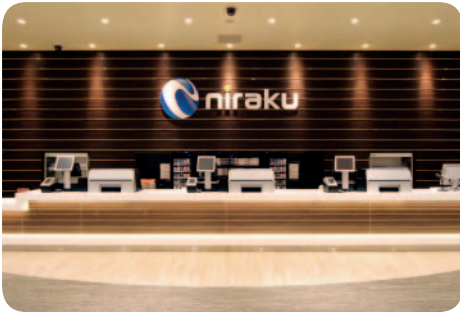


株式会社ニラク・ジー・シー・ホールディングス

# NIRAKU GC HOLDINGS, INC.\*

*(Incorporated in Japan with limited liability)*

Stock Code : 1245



## GLOBAL OFFERING

Sole Sponsor



Shenyin Wanguo Capital (H.K.) Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



Shenyin Wanguo Capital (H.K.) Limited

\* For identification purpose only

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## IMPORTANT

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**IMPORTANT:** If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.



# 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)

## GLOBAL OFFERING

Number of Offer Shares	:	300,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	30,000,000 Shares (subject to adjustment)
Number of International Offer Shares	:	270,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$1.28 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund and plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)
Nominal value	:	Nil
Stock code	:	1245

## Sole Sponsor



Shenyin Wanguo Capital (H.K.) Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



Shenyin Wanguo Capital (H.K.) Limited

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus (the "Prospectus"), make no representation as to the accuracy or completeness of this Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in "Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any other document referred to above.

**Prior to making an investment decision, potential investors should carefully consider all of the information set out in this Prospectus, including the risk factors set out in "Risk Factors" in this Prospectus.**

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Friday, 27 March 2015 and, in any event, not later than Wednesday, 1 April 2015. The Offer Price will not be more than HK\$1.28 and is currently expected to not be less than HK\$1.10. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price (HK\$1.28) for each Share together with a brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is lower than the maximum Offer Price (HK\$1.28).

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate, based on the level of market interest expressed by prospective institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares in the Global Offering and/or the indicative Offer Price range below that stated in this Prospectus (which is HK\$1.10 to HK\$1.28 per Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares in the Global Offering and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese), and on our website ([www.ngch.co.jp](http://www.ngch.co.jp)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)), as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company by Wednesday, 1 April 2015, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. Further details are set out in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this Prospectus.

The obligations of the Hong Kong Underwriter under the Hong Kong Underwriting Agreement to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares, are subject to termination with immediate effect by notice (orally or in writing) from the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting – Underwriting Arrangement and Expenses – Hong Kong Public Offering – Grounds for termination" in this Prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold, pledged or transferred within the United States, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

\* For identification purpose only

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## EXPECTED TIMETABLE

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We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) and on our website ([www.ngch.co.jp](http://www.ngch.co.jp)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) if there is any change in the following expected timetable of the Hong Kong Public Offering:

2015 <sup>(1)</sup>

Latest time to complete electronic applications under the **White Form eIPO** service through the designated website ([www.eipo.com.hk](http://www.eipo.com.hk))<sup>(2)</sup> . . . . . 11:30 a.m. on Friday, 27 March

Application lists open<sup>(3)</sup> . . . . . 11:45 a.m. on Friday, 27 March

Latest time to: (1) lodge **WHITE** and **YELLOW** Application Forms; (2) complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s); and (3) give **electronic application instructions** to HKSCC<sup>(4)</sup> . . . . . 12:00 noon on Friday, 27 March

Application lists close<sup>(3)</sup> . . . . . 12:00 noon on Friday, 27 March

Expected Price Determination Date<sup>(5)</sup> . . . . . Friday, 27 March

Announcement of the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) and on our website ([www.ngch.co.jp](http://www.ngch.co.jp)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) on or before . . . . . Thursday, 2 April

Announcement of results of allocations under the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including our website ([www.ngch.co.jp](http://www.ngch.co.jp)) and the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) (for further details, see "How to Apply for Hong Kong Offer Shares – 11. Publication of Results" in this Prospectus) from . . . . . Thursday, 2 April

Results of allocations under the Hong Kong Public Offering will be available at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a "search by ID" function on a 24-hour basis from . . . . . 8:00 a.m. on Thursday, 2 April

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## EXPECTED TIMETABLE

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Despatch/Collection of White Form e-Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before<sup>(6, 7)</sup> . . . . . Thursday, 2 April

Despatch of Share certificates on or before<sup>(6)</sup> . . . . . Thursday, 2 April

Dealings in the Shares on the Stock Exchange  
expected to commence at . . . . . 9:00 a.m. on Wednesday, 8 April

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Notes:

- (1) All times and dates refer to Hong Kong local time.
- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “**black**” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 27 March 2015, the application lists will not open on that day. For details, see “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this Prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should see “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this Prospectus.
- (5) The Price Determination Date is expected to be on or around Friday, 27 March 2015. If, for any reason, the Offer Price is not agreed by 12:00 noon on Wednesday, 1 April 2015 between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) **Share certificates for the Offer Shares are expected to be issued on or before Thursday, 2 April 2015 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 8 April 2015 provided that (a) the Global Offering has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.**
- (7) **Refund cheques/e-Refund payment instructions will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$1.28 per Offer Share.**

For details of the structure of the Global Offering (including its conditions) and the procedures for applications for Hong Kong Offer Shares, see “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this Prospectus, respectively.

Under Japan law, our Shares are “*bearer shares*” in nature. Ownership of our Shares can be transferred simply by the delivery of share certificates, with or without the transferor and the transferee having signed any document evidencing such transfer. This creates inherent risks for Shareholders and potential investors who choose to hold our Shares by physical possession of our share certificates. **To avoid these risks, which are very significant in the opinion of our**

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## EXPECTED TIMETABLE

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**Directors, potential investors are strongly recommended to hold your investments in our Company through CCASS by: (i) completing the YELLOW Application Forms; or (ii) giving electronic application instructions to HKSCC.** See “Key Japan Legal and Regulatory Matters – A. Bearer Shares” for details.

Due to certain Japan legal and regulatory provisions, **CCASS Beneficial Owners are subject to certain disadvantages** as set out in detail in “Key Japan Legal and Regulatory Matters – A. Bearer Shares – Recommended measures for our Shareholders and potential investors”. For example, CCASS Beneficial Owners are subject to a higher withholding tax rate, and they may not inspect our Share Register unless allowed to do so under the Personal Information Protection Act. Despite these disadvantages, given the risks associated with our “*bearer*” Shares (which are very significant in the opinion of our Directors), **it is our Board’s strong recommendation that potential investors should hold your investments in our Company through CCASS.**

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### IMPORTANT NOTICE TO INVESTORS

*This Prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorised by the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this Prospectus, which should be read in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment, including those set out in “Risk Factors” starting on page 35. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

We operate pachinko halls in Japan where customers can play pachinko and pachislot, which are recreational arcade games characterised by an element of chance. We were the fourth largest pachinko hall operator in Japan in 2013 (based on gross pay-ins), according to EBI. The pachinko industry is highly fragmented, with over 3,800 operators running 11,893 halls as at 31 December 2013. In 2013, our market share based on gross pay-ins was 1.3%, while our market share based on the number of halls in Japan was 0.5%. Ever since we opened our first pachinko hall in 1950, all our operations have been focused in Northeast Honshu (本州島東北), Japan, covering ten prefectures that have a total population of approximately 47.4 million (representing approximately 37.7% of the total population in Japan), as at 31 December 2013, according to EBI.

Fukushima Prefecture (福島県) is our most important strategic location, in which our headquarters are located and we have the most number of our halls (namely, 20 halls as at the Latest Practicable Date), machines and also revenue generation, accounting for over 40% of our total revenue during the Track Record Period. We will continue to leverage our strengths and expand our operations in Northeast Honshu (本州島東北) (especially Fukushima Prefecture (福島県) and its neighbouring and conjoining prefectures) in a cost-efficient and strategic manner. In particular, we expect to open a new hall in Fukushima Prefecture (福島県) by December 2015 with over 1,000 machines, which will become our largest hall and is expected to become one of the largest halls in Fukushima Prefecture (福島県).

Our corporate slogan is “*Happy Time Creation*” and we place our primary focus on customer experience and goodwill. We have strived to adapt to changing industry trends and customer preferences throughout our operating history and have developed into an operator of 55 pachinko halls, as at the Latest Practicable Date.

Our Japan Legal Adviser has confirmed that our pachinko and pachislot hall operations do not constitute “gambling” under, and do not violate, relevant Japan law.



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## SUMMARY

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### OUR PACHINKO AND PACHISLOT BUSINESS

#### Pachinko and Pachislot Games

Pachinko is one of the most popular forms of entertainment for adults in Japan and has a long history, dating back to the early twentieth century. **Pachinko** is similar in appearance to a pinball machine and involves firing pachinko balls in rapid succession into a playing field, with the aim of firing them into pockets that release bonus pachinko balls. Playing costs range from ¥0.5 to ¥4 per ball (before consumption tax). **Pachislot** is similar in appearance to a traditional slot machine and involves inserting pachislot tokens to spin its image reels, with the aim of stopping the reels at a winning matching combination, which will release bonus pachislot tokens. Playing costs range from ¥2 to ¥20 per token (before consumption tax). During the Track Record Period, pachinko and pachislot accounted for approximately 70% and 30% of the total machines in our halls, respectively. Generally, players aim to collect the most number of balls and tokens, which can either be exchanged for prizes or saved for subsequent visits.

#### Prizes

At our halls, customers can exchange two types of prizes, namely: (1) **general prizes** (including our private brand products), which include cigarettes, food and snacks, household goods and drinks; and (2) **G-prizes**, which are decorative cards or coin-shaped pendants that can be subsequently sold by customers to independent G-prize buyers for cash.

#### Pachinko Halls

Our halls can be categorised into suburban halls and urban halls. We had 46 suburban halls and 9 urban halls, as at the Latest Practicable Date. **Suburban halls** are our primary business focus, representing over 90% of our revenue for our pachinko and pachislot business throughout the Track Record Period. They are typically located in suburban areas and require car access. These halls generally have around 400 to 700 machines. Gross pay-ins from peak operation hours (which are typically from 12:00 noon to 5:00 p.m.) on average accounted for approximately 45% of the daily gross pay-ins of our suburban halls during the Track Record Period. **Urban halls** are typically located in urban areas (such as Tokyo (東京都)) and within walking distance of a train station. These halls are generally smaller with around 200 to 300 machines. Gross pay-ins from peak operation hours (which are typically from 5:00 p.m. to 10:00 p.m.) on average accounted for approximately 41% of the daily gross pay-ins of our urban halls during the Track Record Period.

#### Customers and Suppliers

As a pachinko hall operator, players at our halls are our main customers. Customers of our suburban halls are generally the self-employed (such as farmers and fisherman), factory workers and retirees, while those of our urban halls are generally full-time employees. Our pachinko and pachislot hall operations also receive income from vending machine operators that maintain various vending machines at our halls. Also, we operate a hotel and a restaurant franchise. See “Business — Other Businesses” on page 263.

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## SUMMARY

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Our major suppliers consist of: (1) machine suppliers; (2) G-prize wholesalers; and (3) general prize suppliers. See “Business — Suppliers” on page 238.

### **Pachinko Industry**

The pachinko industry has a dominant presence in the gaming sector in Japan (which, as defined by our industry consultant, EBI, consists of pachinko, bicycle-racing, auto-racing, horse-racing and lottery), having comprised 78.0% or ¥18.8 trillion (in terms of gross pay-ins) of the gaming sector in Japan in 2013. However, the pachinko industry has been shrinking, mainly due to competition from other entertainment industries, such as video games, the internet and other mobile entertainment services. From 2009 to 2013, the industry’s gross pay-ins decreased at a compound rate of 2.8%, while from 2014 to 2018, it is expected to decrease at a compound rate of 1.8%, with gross pay-ins dropping to ¥16.1 trillion in 2018. Nevertheless, the industry still remains relatively favourable to large hall operators (such as ourselves) due to industry consolidation. According to EBI, small hall operators have been dropping out of the industry and are expected to continue to do so, while large hall operators have been benefiting by absorbing the freed up market share. The opportunities for us are compounded by the high industry fragmentation and the fact that there are very few hall operators, whose size of operation is as big as ours. As at 31 December 2013, there were over 3,800 operators, of which 95.8% were small hall operators with less than 10 halls and we were one of only eight hall operators with over 50 halls. In addition, there have been discussions about the introduction of a pachinko tax, which may further hinder the overall financial performance of the pachinko industry, although no legislative process has taken place yet. See “Industry Overview” on page 123.

### **Regulatory Framework of the Pachinko Industry**

The pachinko industry is highly regulated under Japan laws and regulations. In particular, we must not be involved in the exchange of prizes for cash or securities. Therefore, we operate our pachinko and pachislot business (regarding the sale and purchase of G-prizes exchanged by a customer at our halls) in accordance with an established industry practice known as the “Three Party System”. The parties under the Three Party System consist of: (1) **pachinko hall operators** (such as ourselves), who operate halls where customers can obtain G-prizes; (2) **G-prize buyers**, who are typically companies or sole proprietorships and purchase G-prizes from customers for cash and also sell G-prizes to G-prize wholesalers; and (3) **G-prize wholesalers**, who are typically companies and purchase G-prizes from G-prize buyers and also sell G-prizes to pachinko hall operators (such as ourselves). Our five largest G-prize wholesalers (out of our total of 12 G-prize wholesalers) have, on average, been established in Japan for over 40 years (whose primary business includes the supply of G-prizes to pachinko hall operators, and for some, further includes the supply of beverages, food and household goods to various companies) and accounted for around 90% of our total purchases of G-prizes during the Track Record Period. Our single largest G-prize wholesaler accounted for 72.8%, 72.1%, 70.4% and 70.2% of our total purchases of G-prizes for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. Under the Three Party System, pachinko hall operators must be independent of each of the: (1) G-prize wholesalers engaged by them; and (2) G-prize buyers engaged by such G-prize wholesalers. We are also regulated under Japan laws and regulations with respect to various other matters, including our halls and game machines

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## SUMMARY

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(such as payout ratios, value of pachinko balls or pachislot tokens that may be put into play per minute, total number of balls or tokens that may be won and maintenance and adjustments of our game machines), operating licences and general corporate matters, such as corporate governance, taxation and labour. See “Applicable Laws and Regulations” on page 139.

### **Our Internal Control and Anti-Money Laundering Procedures, Systems and Controls**

We have implemented internal controls and procedures to: (1) ensure that our pachinko and pachislot hall operations are in full compliance with applicable laws and regulations; and (2) detect and remediate irregularities and unusual activities or trends in our halls. We believe that money laundering risks associated with our pachinko and pachislot hall operations are inherently low due to stringent laws and regulations and machine limitations. Though there are currently no obligations imposed on us under Japan anti-money laundering laws, we have voluntarily established anti-money laundering policies and procedures. See “Internal Controls and Anti-Money Laundering” on page 267 and “Appendix IV – Summary of the Review of Anti-Money Laundering Procedures, Systems and Controls” on page IV-1 for our AML Consultant’s report.

### **The Great East Japan Earthquake**

In March 2011, the Great East Japan Earthquake struck Japan and caused (among others) the nuclear power plant incident in Fukushima Prefecture (福島県). As a result, we recorded earthquake losses (namely, property damage) of ¥653 million for the year ended 31 March 2011 and had to temporarily suspend the operation of a majority of our halls. We also had to permanently close one hall (as it was our only hall located within the exclusion zone implemented by the Japanese government), for which we obtained compensation from the operator of the affected nuclear plants of ¥590 million. Our Directors are considering the most appropriate method to obtain further compensation for loss of profits. Further, our Directors have confirmed that we have not experienced any casualties or injuries as a result of the Great East Japan Earthquake.

After the Great East Japan Earthquake, there has actually been an overall increase in the working population of Fukushima Prefecture (福島県), which has subsequently improved our player traffic, and revenue has also increased at a CAGR of 6.0% over the three years ended 31 March 2014. In fact, the portion of our total revenue from pachinko and pachislot business taken up by our halls located in Fukushima Prefecture (福島県) increased gradually over the Track Record Period, having represented 40.1%, 40.7%, 40.5% and 42.7% of our total revenue from the pachinko and pachislot business of all our halls for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. Further, operating profit attributable to our halls located in Fukushima Prefecture (福島県) also increased over the Track Record Period, having represented 51.1%, 54.6%, 55.9% and 59.7% of our total operating profit for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. Ultimately, as a result of the Great East Japan Earthquake, our revenue was not negatively impacted (and actually improved compared to the financial year preceding the earthquake), while our operating profit was negatively impacted only for the year ended 31 March

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## SUMMARY

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2011 (being the year of the earthquake), after which it had already rebounded to levels exceeding that of the financial year preceding the earthquake. See “Business — Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake” on page 209.

### OUR STRENGTHS

We believe that we have the following key strengths:

- Strong market position (especially in Fukushima Prefecture (福島県)), largely due to economies of scale and brand recognition gained from our strategic geographical focus in Northeast Honshu (本州島東北) and our centralised management strategy
- Efficient management structure supported by sophisticated information technology systems that enable us to anticipate and respond quickly to changes and trends in customer preferences
- Effective internal controls and procedures to ensure our compliance with applicable laws and regulations and to detect and prevent fraud, cheating and money laundering activities
- Experienced and well-qualified management team with a strong track record in operating pachinko halls

### OUR STRATEGIES

We aim to strengthen our market position by pursuing the following strategies:

- Continue to leverage our strengths and expand our suburban halls network in Northeast Honshu (本州島東北) (by opening seven new suburban halls over the next three years) and to extend our leading market position
- Improve the performance of our urban halls
- Launch an online general prize redemption system
- Achieve greater cost savings through our centralised management strategy
- Continue to invest in our information technology system

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## SUMMARY

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### SHAREHOLDERS' PROTECTION

We are subject to the Japan Companies Act and other applicable Japan laws and regulations. The Hong Kong legal and regulatory regime differs in certain material aspects from that in Japan. Some key differences include:

- (1) **Bearer Shares** - Under Japan law, our Shares are “*bearer shares*” in nature. A bearer, or a physical holder, of a share certificate issued by us is generally recognised as the owner of the Shares represented by it. Ownership of our Shares can be transferred simply by the delivery of our share certificates, regardless of whether the transferor and the transferee has signed any document evidencing such transfer. This creates inherent risks for our Shareholders and potential investors who choose to hold our Shares by physical possession of our share certificates. **To avoid these risks, which are very significant in our Directors’ opinion, you (as potential investors) are strongly recommended to hold your investments in our Company through CCASS.**
- (2) **CCASS** - Due to certain Japan legal and regulatory provisions, **CCASS Beneficial Owners are subject to certain disadvantages** as set out in detail in “Key Japan Legal and Regulatory Matters — A. Bearer Shares — Recommended measures for our Shareholders and potential investors” on page 65. For example, CCASS Beneficial Owners do not have the option to elect the currency of their dividend payments, and they may not inspect our Share Register unless allowed to do so under the Personal Information Protection Act. Despite these disadvantages, given the risks associated with our “*bearer*” Shares (which are very significant in our Directors’ opinion), it is our Board’s strong recommendation that you (as potential investors) should hold your investments in our Company through CCASS.
- (3) **Taxation** - We are required under Japan law to withhold up to 20.420% of taxes on dividend payments. Withholding tax rates may vary according to the circumstances of an investor, and Hong Kong Shareholders (except for CCASS Beneficial Owners) are entitled to a lower tax rate under the Hong Kong-Japan Tax Treaty. If you choose to invest through CCASS, you will be subject to a higher withholding tax rate.
- (4) **Waivers** - Due to certain Japan law provisions, we are unable to strictly comply with certain requirements under the Listing Rules, such as: (i) requiring our Controlling Shareholders or other Shareholders having an interest in a transaction to abstain from voting in a general meeting; and (ii) issuing a supplemental circular for persons nominated as Directors. We have applied for, and the Stock Exchange has granted us, waivers from strict compliance with these Listing Rules requirements.

Certain Japan legal and regulatory provisions may significantly affect your rights and obligations as a Shareholder. See “Key Japan Legal and Regulatory Matters” on page 63, “Waivers” on page 106, “Risk Factors — Risks Relating to Key Japan Legal and Regulatory Matters” on page 36 and “Appendix V — Summary of our Articles of Incorporation and Japan Corporation Law” on page V-1.

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## SUMMARY

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### RISK FACTORS

Our business is subject to a number of risks, including risks relating to our business, the pachinko industry, Japan and the Global Offering. You should read the entire “Risk Factors” section starting on page 35 carefully. These risks include:

- Our business depends significantly on the services provided by our G-prize wholesalers and their G-prize buyers
- We may be adversely affected by any breach of the independence requirements under the Three Party System
- We experienced decreased gross pay-ins for the six months ended 30 September 2014 compared to the corresponding period of the previous year, and we cannot guarantee that our results will improve
- Our financial results for the year ending 31 March 2015 are expected to be affected by certain one-off expenses
- Our business may be adversely affected by natural disasters, such as earthquakes like the Great East Japan Earthquake, or disease outbreaks
- We face the risk of fraud or cheating
- We rely heavily on our information technology systems, which could be subject to unexpected interruption or security breaches
- Our business may be affected by downturns in the economy (such as the recent recession of the Japanese economy), economic uncertainty and other factors affecting discretionary consumer spending
- Our pachinko halls may not perform as expected and our strategy of expanding our suburban hall network may not be successful
- If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud
- We face intense competition in Japan from other pachinko hall operators (due to high industry fragmentation) and also other entertainment businesses
- There are legal uncertainties with respect to the operation of our business under the Three Party System
- Appraised values of our selected properties in Japan may be different from their actual realisable values and are subject to variation

## SUMMARY

### KEY OPERATING AND FINANCIAL METRICS

The table below shows the key financial metrics of our business during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
(¥, in millions, unless otherwise specified)					
<b>Revenue from pachinko and pachislot business</b>					
Gross pay-ins <sup>(1)</sup> . . . . .	224,968	242,217	236,449	120,674	90,989
Less: gross payouts <sup>(2)</sup> . . . . .	(195,340)	(210,298)	(203,455)	(104,682)	(75,798)
	<b>29,628</b>	<b>31,919</b>	<b>32,994</b>	<b>15,992</b>	<b>15,191</b>
Vending machine income . . . . .	724	748	704	362	301
<b>Revenue from pachinko and pachislot hall operations . . . . .</b>					
	<b>30,352</b>	<b>32,667</b>	<b>33,698</b>	<b>16,354</b>	<b>15,492</b>
Hotel operations . . . . .	—	84	149	75	80
<b>Total revenue . . . . .</b>	<b>30,352</b>	<b>32,751</b>	<b>33,847</b>	<b>16,429</b>	<b>15,572</b>
<b>Revenue margin (%)<sup>(3)</sup> . . . . .</b>	13.2	13.2	14.0	13.3	16.7
<b>G-prize mark-up (%)<sup>(4)</sup> . . . . .</b>	Nil	Nil	Nil	Nil	4-20
<b>Machine utilisation (%)<sup>(5)</sup></b>					
Overall for pachinko . . . . .	37.3	34.9	32.2	34.5	27.5
Overall for pachislot . . . . .	31.0	29.3	28.4	29.2	22.8
<b>Average number of machines per hall</b>					
<i>Suburban</i>					
High playing cost . . . . .	359	361	373	353	358
Low playing cost . . . . .	160	168	161	181	181
<b>Total . . . . .</b>	<b>519</b>	<b>529</b>	<b>534</b>	<b>534</b>	<b>539</b>
<i>Urban</i>					
High playing cost . . . . .	176	170	165	165	165
Low playing cost . . . . .	84	94	99	99	99
<b>Total . . . . .</b>	<b>260</b>	<b>264</b>	<b>264</b>	<b>264</b>	<b>264</b>

(1) Represents the amount received from customers for rented pachinko balls and pachislot tokens.

(2) Represents the aggregate cost of G-prizes and general prizes exchanged by customers.

(3) Represents gross pay-ins less gross payouts, divided by gross pay-ins. It is an indicator of the portion of our gross pay-ins that we receive as revenue, namely through customers playing our machines and our mark-ups on prize redemption.

(4) Represents the difference between the value of the number of balls or tokens required to collect a G-prize and the cost of the G-prize.



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## SUMMARY

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- (5) Represents the average number of balls or tokens played per day, divided by the maximum number of balls or tokens allowed to be played under the machine settings per day. The maximum number of balls or tokens allowed to be played under the machine settings per day is defined as the maximum number of balls or tokens allowed to be played under the machine settings per hour (i.e. 6,000 balls or 2,634 tokens) multiplied by the number of operating hours per day (i.e. 13.5 hours).

For the three years ended 31 March 2014, our key operating and financial metrics were generally stable.

For the six months ended 30 September 2014, consumption tax in Japan was increased from 5% to 8% with effect from 1 April 2014. Significantly, this would have reduced our revenue margin by 3% and also our revenue as we had to bear such tax increase on our gross pay-ins. To counter this, we imposed G-prize mark-ups for all of our halls ranging from 4% to 20% (with an average of around 10%) effective from the same date, (which in our Directors' view based on market observations, for our halls in Fukushima Prefecture (福島県), were generally similar to that imposed by our major competitors). Ultimately, our revenue margin increased and our revenue merely dropped by 5.2% against a 24.6% decrease in our gross pay-ins (compared to the corresponding period of the previous year). Such drop in gross pay-ins was mainly caused by a reduction in household disposable income (due to the tax increase) as well as player sensitivity to G-prize mark-ups. In December 2014, we cancelled the G-prize mark-ups for 17 of our halls (all located in the Kantō Region (関東地方)) as some competing halls nearby did not adopt such mark-ups. The gross pay-ins and revenue attributable to these 17 halls accounted for around 35% of our total gross pay-ins and our revenue from pachinko and pachislot business, during the Track Record Period, respectively. We expect such cancellation will improve the player traffic (and consequently gross pay-ins) of such halls by attracting players who are relatively sensitive to G-prize mark-ups. Going forward, we will continue to monitor and adjust our G-prize mark-ups (with an objective of maximising our revenue), taking into account all relevant factors, such as player sensitivity to mark-ups and competitors' behaviour. See "Financial Information — Results of Operations of Our Group — Description of Components of Results of Operations — Gross payouts" on page 299.

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## SUMMARY

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### KEY HISTORICAL FINANCIAL INFORMATION

#### Key Consolidated Statements of Comprehensive Income

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
	(unaudited)				
<b>Revenue from pachinko and pachislot business</b>					
Gross pay-ins . . . . .	224,968	242,217	236,449	120,674	90,989
Less: gross payouts . . . . .	(195,340)	(210,298)	(203,455)	(104,682)	(75,798)
	<b>29,628</b>	<b>31,919</b>	<b>32,994</b>	<b>15,992</b>	<b>15,191</b>
Vending machine income . . . . .	724	748	704	362	301
<b>Revenue from pachinko and pachislot hall operations . . . . .</b>	<b>30,352</b>	<b>32,667</b>	<b>33,698</b>	<b>16,354</b>	<b>15,492</b>
Hotel operations . . . . .	—	84	149	75	80
<b>Total revenue . . . . .</b>	<b>30,352</b>	<b>32,751</b>	<b>33,847</b>	<b>16,429</b>	<b>15,572</b>
Hall operating expenses ( <i>Note</i> ) . . . . .	(20,609)	(21,909)	(22,798)	(11,494)	(11,644)
Administrative and other operating expenses . . . . .	(3,319)	(4,126)	(4,636)	(2,013)	(2,808)
<b>Operating profit . . . . .</b>	<b>7,035</b>	<b>7,142</b>	<b>6,694</b>	<b>3,023</b>	<b>1,896</b>
<b>Profit for the year/period attributable to shareholders of the Company . . . . .</b>	<b>3,329</b>	<b>3,765</b>	<b>3,698</b>	<b>1,623</b>	<b>937</b>

*Note:* The majority of our hall operating expenses are pachinko and pachislot machine purchases and also staff costs (including salary, bonus and other provisions), accounting for over 56% of the total hall operating expenses during the Track Record Period. We recognise pachinko and pachislot machines as inventory upon acquisition and expense them in our consolidated statements of comprehensive income upon installation. See “Financial Information — Results of Operations of Our Group — Description of components of Results of Operations — Hall operating expenses” on page 306.

Our profit attributable to shareholders of the Company increased by ¥369 million, or a CAGR of 5.4%, from ¥3,329 million for the year ended 31 March 2012 to ¥3,698 million for the year ended 31 March 2014. This was mainly due to the expansion of our pachinko hall network from 50 halls as at 31 March 2012 to 53 halls as at 31 March 2014. Our profit attributable to shareholders of the Company decreased by ¥686 million, or 42.3%, from ¥1,623 million for the six months ended 30 September 2013 to ¥937 million for the six months ended 30 September 2014. This was largely due to two one-off expenses, namely: (1) listing expenses of ¥226 million; and (2) a retirement payment of ¥600 million made to Mr. Tatsuo TANIGUCHI (谷口龍雄) as special benefit for his retirement as a Director of our Company in June 2014 and a director of Niraku Corporation in September 2014. The rules of our Remuneration Committee provide that our Group shall not make any retirement payments to our Directors after Listing. Without taking into account such one-off expenses, our profit attributable to shareholders of the Company for the six months ended 30 September 2014 would have been stable (compared to the corresponding period of the previous year).

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## SUMMARY

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### Key Consolidated Statements of Financial Position

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Non-current assets . . . . .	30,335	32,334	34,936	35,496
Current assets . . . . .	14,848	9,860	11,969	13,590
Non-current liabilities . . . . .	10,523	13,605	16,154	15,582
Current liabilities . . . . .	16,012	10,737	8,951	12,625
Net current (liabilities) assets . . . . .	(1,164)	(877)	3,018	965
Total equity . . . . .	<u>18,648</u>	<u>17,852</u>	<u>21,800</u>	<u>20,879</u>

### Key Consolidated Statements of Cash Flows

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
	(unaudited)				
Net cash generated from operating activities . . . . .	11,464	7,684	6,280	1,924	3,164
Net cash used in investing activities . . . . .	(695)	(2,902)	(1,390)	(962)	(734)
Net cash (used in)/generated from financing activities . . . . .	<u>(3,815)</u>	<u>(10,458)</u>	<u>(3,390)</u>	<u>80</u>	<u>(837)</u>
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>	6,954	(5,676)	1,500	1,042	1,593
<b>Cash and cash equivalents at the beginning of the year/period . . . . .</b>	<u>5,631</u>	<u>12,585</u>	<u>6,909</u>	<u>6,909</u>	<u>8,409</u>
<b>Cash and cash equivalents at the end of the year/period, represented by bank balances and cash . . . . .</b>	<u><u>12,585</u></u>	<u><u>6,909</u></u>	<u><u>8,409</u></u>	<u><u>7,951</u></u>	<u><u>10,002</u></u>

Net cash generated from operating activities declined during the Track Record Period, mainly because cashflow derived from changes in working capital usage decreased in the latter years. Net cash used in investing activities increased substantially during the year ended 31 March 2013 due to our acquisition of Jin Corporation for ¥820 million and our purchases of financial assets of ¥633 million. Net cash (used in)/generated from financing activities increased significantly in the year ended 31 March 2013, mainly due to the ¥4,563 million in cash being distributed to our then shareholders through the repurchase of Niraku Corporation's shares by itself and our purchase of shares in Niraku Corporation. See "Financial Information — Liquidity and Capital Resources — Cash flows" on page 325.

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### Key Financial Ratios

	As at 31 March			As at 30 September
	2012	2013	2014	2014
Current ratio . . . . .	0.93	0.92	1.34	1.08
Quick ratio . . . . .	0.90	0.91	1.33	1.07
Gearing ratio (%) . . . . .	101.4	98.7	91.7	100.4
Debt to equity ratio (%) . . . . .	33.9	60.0	53.2	52.5
Return on total assets (%) . . . . .	7.4	8.9	7.9	3.8*
Return on equity (%) . . . . .	17.9	21.1	17.0	9.0*
Interest coverage . . . . .	9.7	10.9	9.8	7.0

\* Profit attributable to shareholders used for the calculation of the return on total assets and return on equity has been annualised based on the actual results for the six months ended 30 September 2014 so as to be comparable with annual data.

See “Financial Information — Selected Key Financial Ratios” on page 359 for detailed calculations and fluctuation analyses.

### LISTING EXPENSES

The estimated total listing expenses (assuming an Offer Price of HK\$1.19 per Offer Share, being the mid-point of our indicative Offer Price range and that the Over-allotment Option is not exercised) in relation to the Global Offering are approximately ¥1,149 million (approximately HK\$76 million), of which approximately: (1) ¥340 million (approximately HK\$22 million) is directly attributable to the issue of new Shares in the Global Offering and to be accounted for as a deduction from equity; and (2) ¥809 million (approximately HK\$54 million) is to be charged as administrative expenses to our profit and loss accounts for the year ending 31 March 2015. Out of this amount, approximately ¥226 million (approximately HK\$15 million) had been charged to our profit and loss account for the six months ended 30 September 2014, and a further amount of approximately ¥583 million (approximately HK\$39 million) is expected to be charged to our profit and loss account as administrative and other operating expenses for the six months ending 31 March 2015.

### PROPERTY VALUATION

DTZ Debenham Tie Leung Limited, our independent Property Valuer, has valued selected properties in Japan (in which our Group has interests) as at 31 January 2015 and is of the opinion that the value was (in aggregate) ¥1,452.2 million, with the entire value attributable to us. The key assumptions adopted by our Property Valuer in valuing such properties include (among others): (1) transferable land use rights of the properties for their respective terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid; (2) information and advice given by our Group regarding the title to each of the properties and the interests of our Group in the properties; and (3) our Group has an enforceable title to each of the properties and has free and uninterrupted rights to use, occupy or assign the properties for the

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## SUMMARY

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whole of the respective unexpired land use term as granted. For its valuation, our Property Valuer used the investment approach. You (as a potential investor) are advised that the appraised value of these selected properties should not be taken as their actual realisable value or a forecast of their actual realisable value. See “Appendix III – Valuation Report on Selected Property Interests” on page III-1.

### RECENT DEVELOPMENTS

The material developments on our operations and financial position since 30 September 2014 (being the end of the Track Record Period) are: (1) we opened two new suburban halls, namely one in Saitama Prefecture (埼玉県) (with 480 pachinko and 336 pachislot machines) in November 2014 and one in Gunma Prefecture (群馬県) (with 350 pachinko and 176 pachislot machines) in December 2014 (the “**Recently Opened Halls**”), bringing our total number of operating halls to 55 as at the Latest Practicable Date; (2) for the three months ended 31 December 2014, the utilisation rate of our pachinko and pachislot machines (excluding the machines at the Recently Opened Halls) dropped to approximately 25.7% and 21.5% (compared to 27.5% and 22.8% for the six months ended 30 September 2014), respectively. However, after we cancelled the G-prize mark-ups for 17 of our halls in December 2014, the utilisation rate of our pachinko and pachislot machines (excluding the machines at the Recently Opened Halls) improved to approximately 26.2% and 22.8% in January 2015 due to increased player traffic at such halls, respectively. Further, our revenue margin for the four months ended 31 January 2015 increased to approximately 20.7% (compared to 16.7% for the six months ended 30 September 2014) due to a decrease in our payout ratio. The above is based on information derived from our operation for the ten months ended 31 January 2015; and (3) in October 2014, we opened our first and flagship “LIZARRAN” restaurant (with a seating capacity of 82) in Tokyo (東京都).

We intend to close down three of our urban halls in Tokyo (東京都) by the end of 2015. To close two of these halls (which are loss-making), we expect to incur costs of ¥327 million (subject to negotiation), consisting of rent for the remaining term of the lease and restoration fees. Nevertheless, we expect the Group’s financial performance to improve in the long run as these two halls show insufficient potential in generating positive financial results in the future. For the third hall, it is profit-making and being closed purely due to city planning by the government of Tokyo (東京都) and we do not expect such closure to cause any negative financial impact as we expect to receive full compensation (including loss of income) from such government. See “Business – Strategies – Improve the performance of our urban halls” on page 202 and “Business – New Hall Development” on page 235.

Further, in 2014, the Diet was examining a bill legalising the operations of casinos in Japan in 2014. However, as advised by our Japan Legal Adviser, this bill has since been discarded and there is no longer any formal legislative procedure to consider the legalisation of casino operations in Japan. In any case, if casino operations are eventually legalised, this means we may also face competition from casinos and other gaming venues.

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## SUMMARY

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Also, we currently expect that our financial results for the year ending 31 March 2015 will be negatively impacted by two one-off expenses, namely the estimated listing expenses (including those already incurred for the six months ended 30 September 2014) and the retirement payment as described above on pages 10 and 12.

Save as disclosed above, our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 30 September 2014 (the date of the latest audited consolidated financial information of our Group) and up to the date of this Prospectus. Also, as far as our Directors are aware, there has also been no material change in the general economic or market conditions in Japan that would have a material and adverse impact on our business operation or financial condition since 30 September 2014 to the date of this Prospectus.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$1.19, we estimate that we will receive net proceeds of approximately HK\$281 million (equivalent to approximately ¥4,259 million) from the Global Offering (after deducting underwriting fees and other estimated expenses payable by us in relation to the Global Offering and assuming the Over-allotment Option is not exercised). See “Future Plans and Use of Proceeds” on page 405. Our intended uses are set out below:

Net Proceeds		% of Total Net Proceeds	Intended Use
(HK\$ million)	(¥ million)	(%)	
253	3,833	90	Open five new suburban halls in Northeast Honshu (本州島東北) over the next two years
22	341	8	Invest in our information technology system
6	85	2	Working capital and other general corporate purposes of our Group

### OFFER STATISTICS

The statistics in the table below are calculated based on the following assumptions: (1) the Over-allotment Option will not be exercised; and (2) there are 1,195,850,460 Shares in issue immediately after completion of the Global Offering.

	Based on an Offer Price of HK\$1.10		Based on an Offer Price of HK\$1.28	
	¥	HK\$	¥	HK\$
Market capitalisation of the Shares . . . . .	19,929 million	1,315 million	23,190 million	1,531 million
Unaudited pro forma adjusted net tangible assets per Share <sup>(1)</sup> . . . . .	20.7	1.37	21.4	1.41

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(1) The unaudited pro forma adjusted net tangible assets value per Share has been arrived at after the adjustments referred to in “Appendix II – Unaudited Pro Forma Financial Information” on page II-1.

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## SUMMARY

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### SHAREHOLDER INFORMATION

Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), the Taniguchi Consortium will together control an aggregate of approximately 69.5% of our total number of issued Shares and are our Controlling Shareholders. Each member of the Taniguchi Consortium is an associate of (under the Listing Rules), and a person acting in concert with (under the Takeovers Code), each other. Our other Shareholders will be an Executive Officer, a former member of our senior management, the ESOA as well as participants of the Global Offering. See “History and Corporate Development – Shareholding Structure” on page 173. We operate independently of our Controlling Shareholders. See “Relationship with our Controlling Shareholders – Independence from our Controlling Shareholders” on page 371.

### DIVIDEND POLICY

During the Track Record Period we declared and paid dividends in the amount of ¥110 million, ¥110 million, ¥183 million and ¥183 million for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014, respectively. Our distribution of dividends will be subject to the availability of Distributable Amount and compliance with applicable laws and regulations in Japan and Hong Kong. We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends will be generally formulated by our Board at their discretion. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital expenditure requirements, the size of our Distributable Amount (calculated according to the relevant provisions under the Japan Companies Act), our Articles, the Japan Companies Act and any other applicable Japan law and regulations (as discussed below) and other factors that our Directors may consider relevant. We currently intend to recommend dividends totalling approximately 30% of our consolidated net profit after tax attributable to our shareholders (calculated in accordance with IFRS) from the year ending 31 March 2016 onwards, to be distributed on an interim and year-end basis. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements, availability of Distributable Amount and any other conditions that our Directors may deem relevant. There is no assurance that dividends of any amount will be declared or distributed in any year. You should note that historical dividend distributions are not indicative of our future dividend policy. See “Financial Information – Dividend Policy” on page 366 for details on our dividend policy.

Going forward, Shareholders that are entitled to receive cash dividends (if any) from our Company will have the option of receiving their entitlements in either Japanese Yen or Hong Kong Dollars, except for CCASS Beneficial Owners, who will receive dividend payments in Hong Kong Dollars. Shareholders who are either residents in Hong Kong or corporations incorporated in Hong Kong without any permanent establishment in Japan are entitled to a reduced withholding tax rate under the Hong Kong-Japan Tax Treaty. See “Key Japan Legal and Regulatory Matters – E. Taxation – 1. Withholding Tax on Dividend Payment” on page 89 for details on our obligation under Japan law to withhold tax prior to payment of dividends and also for the application procedures for such reduced withholding tax rate.



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## DEFINITIONS

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*In this Prospectus, the following terms have the following meanings set out below unless the context otherwise requires.*

“AGM(s)”	the annual general meeting(s)* (定時株主総会) of our Company
“AML”	anti-money laundering
“AML Consultant”	PricewaterhouseCoopers Limited, our independent consultant regarding anti-money laundering
“Amusement Business Law”	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)
“Application Form(s)”	<b>WHITE, YELLOW</b> and <b>GREEN</b> applications form(s), or where the context so requires, any of them
“Articles” or “Articles of Incorporation”	the articles of incorporation* (定款) of our Company that were adopted on 16 March 2015 and will take effect on the Listing Date, a summary of which is included in “Appendix V – Summary of our Articles of Incorporation and Japan Corporation Law”
“Audit Committee”	the audit committee* (監査委員会) of our Company established on 25 June 2014 pursuant to the Japan Companies Act, the written rules of which were amended and adopted on 16 March 2015 in compliance with the Listing Rules
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	our board of Directors
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Beneficial Owner(s)”	beneficial owners of our Shares who hold pecuniary interests and voting rights in our Company attached to the Shares deposited into CCASS and held in the name of HKSCC Nominees

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## DEFINITIONS

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“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman” or “Mr. Taniguchi”	Mr. Hisanori TANIGUCHI (谷口久徳) <sup>#</sup> (also known as Mr. JEONG Seonggi), a Controlling Shareholder, an Executive Director, our Chief Executive Officer and our Chairman of the Board
“Chief Executive Officer”	the chief executive officer* (代表執行役) of our Company, the functions of whom are set out in “Directors and Senior Management — Senior Management — Executive Officers”. Our current Chief Executive Officer is our Chairman
“Civil Code”	the Civil Code* (民法) of Japan (Act No. 89 of 1896)
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Act” or “Japan Companies Act”	the Companies Act* (会社法) of Japan (Act No. 86 of 2005)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	NIRAKU GC HOLDINGS, INC.* (株式会社ニラク・ジー・シー・ホールディングス) (formerly known as Niraku Global Community Holdings Inc.* (株式会社ニラク・グローバル・コミュニティ・ホールディングス) from 10 January 2013 to 20 October 2014), the holding company of our Group and the proposed listing vehicle for the Listing, which is a stock company* (株式会社) incorporated in Japan with limited liability on 10 January 2013 (registration number 3800-01-022352)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, for the purpose of this Prospectus, refers to the members of the Taniguchi Consortium
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
“Country Guide”	the Country Guide — Japan published by the Stock Exchange on 20 December 2013 and updated in April 2014
“Deed of Indemnity”	the deed of indemnity dated 16 March 2015 executed by our Controlling Shareholders (as indemnifiers) in favour of our Company (for itself and as trustee for each of our subsidiaries), particulars of which are set out in “Appendix VI — Statutory and General Information — F. Other Information — 10. Taxation of holders of our Shares”
“Deed of Non-Competition”	the deed of non-competition dated 16 March 2015 executed by our Controlling Shareholders (as covenantors) and our Company, particulars of which are set out in “Relationship with our Controlling Shareholders — Deed of Non-Competition”
“Director(s)”	director*(s) (取締役) of our Company, who are designated as a Director* (取締役) or an external Director* (社外取締役) in accordance with the requirements under the Japan Companies Act, or an Executive Director or an Independent Non-executive Director in accordance with the criteria under the Listing Rules
“Distributable Amount”	the retained earning* (剰余金) recorded in our financial statements prepared in accordance with JGAAP, with certain adjustments (including the deduction of the book value of any treasury stock* (自己株式) of our Company) as explained further in “Appendix V — Summary of our Articles of Incorporation and Japan Corporation Law — 6. Dividends and Distributions”
“EBI”	Entertainment Business Institute* (株式会社エンタテインメントビジネス総合研究所), a private research and consulting firm specialising in the gaming industry in Japan, and an independent industry consultant commissioned by us to prepare an industry report

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## DEFINITIONS

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“ <b>electronic application instruction(s)</b> ”	Instruction(s) given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Hong Kong Offer Shares
“Enforcement Ordinance”	the Ordinance for Enforcement of the Amusement Business Law* (風俗営業等の規制及び業務の適正化等に関する法律施行規則) of Japan (National Public Safety Commission Regulation No. 1 on 11 January 1985)
“ESOA”	Niraku Employee Stock Ownership Association* (ニラク従業員持株会), a partnership* (組合) established under Civil Code on 16 January 2001 in Japan. The ESOA grants entitlement rights attached to our Shares to the current employees of our Group. ESOA is a Shareholder of our Company
“Excluded Group”	NI and NUSA, which are engaged in business activities that are unrelated to and clearly delineated from our core business of pachinko and pachislot hall operations and were excluded from our Group as a result of our Reorganisation
“Executive Director(s)”	the executive Director(s) of our Company
“Executive Officer(s)”	the executive officer(s)* (執行役) of our Company, the functions of whom are set out in “Directors and Senior Management – Senior Management – Executive Officers”
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “we” or “us”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“HK\$”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited

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## DEFINITIONS

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“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong-Japan Tax Treaty”	the Agreement between the Government of the Hong Kong Special Administrative Region of the People’s Republic of China and the Government of Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income dated 9 November 2010
“Hong Kong Offer Shares”	the 30,000,000 Shares initially being offered by our Company for subscription at the Offer Price under the Hong Kong Public Offering (subject to adjustment as described in “Structure of the Global Offering”)
“Hong Kong Public Offering”	the offer by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (subject to the terms and conditions described in this Prospectus and the Application Forms)
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriter”	the underwriter of the Hong Kong Public Offering named in “Underwriting – Hong Kong Underwriter”
“Hong Kong Underwriting Agreement”	the conditional Hong Kong Underwriting Agreement dated 23 March 2015 relating to the Hong Kong Public Offering entered into by our Company, our Controlling Shareholders, our Executive Director, the Sole Global Coordinator and the Hong Kong Underwriter, as described in “Underwriting”
“IFRS”	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
“Independent Non-executive Director(s)”	the independent non-executive Director(s) of our Company
“independent third party(ies)”	entity(ies) or person(s) that are not a core connected person of our Company or any of their respective close associate(s)
“International Offer Shares”	the 270,000,000 Shares initially being offered by our Company for subscription at the Offer Price under the International Offering (subject to adjustment as described in “Structure of the Global Offering”), and where relevant, together with any Shares issued pursuant to any exercise of the Over-allotment Option

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## DEFINITIONS

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“International Offering”	the conditional placing of the International Offer Shares at the Offer Price outside the United States in offshore transactions in reliance on Regulation S, subject to the terms and conditions described in this Prospectus and the International Underwriting Agreement
“International Underwriter”	the underwriter of the International Offering named in “Underwriting – International Underwriter”
“International Underwriting Agreement”	the conditional underwriting agreement expected to be entered into on or around the Price Determination Date by our Company, our Controlling Shareholders, our Executive Director, the Sole Global Coordinator and the International Underwriter
“Issuing Mandate”	the general unconditional mandate given to our Board by our Shareholders relating to the issue, allotment and dealings of our Shares, as further described in “Share Capital”
“Japan Legal Adviser”	Soga Law Office, our legal adviser as to Japan law
“Japanese Yen”, “¥” or “Yen”	Japanese Yen, the lawful currency of Japan
“JCA Amendments”	Certain amendments made to the Japan Companies Act in June 2014 which will take effect on 1 May 2015
“JGAAP”	Japanese Generally Accepted Accounting Principles
“Joint Policy Statement”	the Joint Policy Statement Regarding the Listing of Overseas Companies jointly issued by the Stock Exchange and the SFC on 27 September 2013
“Las Vegas Property”	a piece land and the premise of hotel and casino located in downtown Las Vegas, Nevada, the U.S. owned by a company incorporated in the State of Delaware, the U.S. NUSA acquired a 10% interest in the Las Vegas Property in February 2015 as further described in “Relationship with our Controlling Shareholders – Independence from our Controlling Shareholders – 1. No competition and clear delineation of business – Las Vegas Property”. We do not have, and are not expected to have, any interest in the Las Vegas Property
“Latest Practicable Date”	15 March 2015, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information contained in this Prospectus

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## DEFINITIONS

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“Leases Act”	the Act on Land and Building Leases* (借地借家法) of Japan (Act No. 90 of 1991)
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or around 8 April 2015, on which the Shares become listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Merrist”	Niraku Merrist Corporation* (株式会社ニラク・メリスト), a stock company* (株式会社) incorporated in Japan with limited liability on 24 February 2010 (registration number 3800-01-019392). Merrist is an indirectly wholly-owned subsidiary of our Company
“MT Family Trust”	a family trust established pursuant to a trust agreement dated 21 October 2014 for which SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行) acts as the assignee* (受託者) and the assignors and beneficiaries* (委託者兼受益者) are Mr. Tatsunari TANIGUCHI (谷口辰成)# (also known as Mr. CHONG Jinsong), Mr. Takanari TANIGUCHI (谷口喆成)# (also known as Mr. JEONG Cheolseong) and Mr. Toshinari TANIGUCHI (谷口才成)# (also known as Mr. CHUNG Jaeseong), each being a child of Mr. Masataka TANIGUCHI (谷口晶貴), a Controlling Shareholder, and a nephew of our Chairman. As at the date of this Prospectus, the MT Family Trust is the registered Shareholder of approximately 15.0% of our total number of issued Shares. Mr. Masataka TANIGUCHI (谷口晶貴) is entitled to exercise the voting rights in respect of the Shares held by the MT Family Trust. See “History and Corporate Development — Shareholding Structure — Taniguchi Consortium — Family Trust Arrangements”
“National Police Agency”	the National Police Agency* (警察庁) of Japan, an agency administered by the National Public Safety Commission of the Cabinet Office* (内閣府) in the Cabinet of Japan* (内閣), and is the central coordinating agency of the Japanese police system



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## DEFINITIONS

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“National Public Safety Commission”	the National Public Safety Commission* (国家公安委員会) of Japan, an administrative commission belonging to the Cabinet Office* (内閣府) in the Cabinet of Japan* (内閣) that, among others, oversees the National Police Agency
“National Tax Agency” or “NTA”	National Tax Agency* (国税庁) of Japan, the official tax collecting agency of Japan
“Nexia”	NEXIA Inc.* (株式会社ネクシア), a stock company* (株式会社) incorporated in Japan with limited liability on 19 June 2009 (registration number 0100-01-126618). Nexia is an indirectly wholly-owned subsidiary of our Company
“Niraku Corporation”	Niraku Corporation* (株式会社ニラク) (formerly known as 二楽商事株式会社 from 27 August 1969 to 9 August 1998), a stock company* (株式会社) incorporated in Japan with limited liability on 27 August 1969 (registration number 3800-01-006170). Niraku Corporation is a directly wholly-owned subsidiary of our Company
“NI”	Niraku Investment Inc.* (ニラクインベストメント株式会社), a stock company* (株式会社) incorporated in Japan with limited liability on 17 September 2014 (registration number 3800-01-024662). As at the date of this Prospectus, NI is collectively directly owned as to approximately 93.2% and controlled by members of the Taniguchi Consortium. NI is not a member of our Group
“Nomination Committee”	the nomination committee* (指名委員会) of our Company established on 25 June 2014 pursuant to the Japan Companies Act, the written rules of which were amended and adopted on 16 March 2015 in compliance with the Listing Rules
“Northeast Honshu (本州島東北)”	the north-eastern area of Honshu (本州島), Japan, which is the largest and most populous island of Japan and in which all of our halls are located
“NUSA”	NIRAKU USA Inc., a close corporation incorporated in the state of Nevada, the U.S. with limited liability on 29 July 2014 which is directly wholly-owned by NI. NUSA is not a member of our Group

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## DEFINITIONS

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“Offer Price”	the final price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$1.28 per Offer Share and is expected to be not less than HK\$1.10, which will be determined by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or around the Price Determination Date
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares including, where relevant, any additional Shares issued pursuant to any exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company to the Sole Global Coordinator under the International Underwriting Agreement, exercisable by the Sole Global Coordinator (on behalf of the International Underwriter), pursuant to which our Company may be required to allot and issue up to 45,000,000 additional Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover any over-allocations in the International Offering
“Over-allotment Shares”	up to 45,000,000 Shares which our Company may be required to issue at the Offer Price pursuant to the Over-allotment Option
“Patent Act”	the Patent Act* (特許法) of Japan (Act No. 121 of 1959)
“PDPO”	the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong)
“Penal Code”	the Penal Code* (刑法) of Japan (Act No. 45 of 1907)
“Personal Information Protection Act”	the Personal Information Protection Act* (個人情報保護に関する法律) of Japan (Act No.57 of 2003)
“PRC”	the People’s Republic of China
“Prefectural Public Safety Commission”	the various Prefectural Public Safety Commissions* (都道府県公安委員会) of Japan, an administrative commission under the jurisdiction of each prefectural governor and that, among others, oversees the prefectural police agencies of Japan

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## DEFINITIONS

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“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or around the Price Determination Date to fix the Offer Price
“Price Determination Date”	the date on which the Offer Price will be determined under the Price Determination Agreement, which is expected to be on or about Friday, 27 March 2015 and in any event no later than Wednesday, 1 April 2015
“Property Valuer”	DTZ Debenham Tie Leung Limited, our independent property valuer
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee* (報酬委員会) of our Company established on 25 June 2014 pursuant to the Japan Companies Act, the written rules of which were amended and adopted on 16 March 2015 in compliance with the Listing Rules
“Repurchase Mandate”	the general unconditional mandate given to our Board by our Shareholders relating to the repurchase of Shares, as further described in “Share Capital”
“Reorganisation”	the restructuring of our Group in preparation for the Listing, details of which are set out in “History and Corporate Development — Corporate Structure and Development — Reorganisation”
“Reporting Accountant”	PricewaterhouseCoopers, our auditor and reporting accountant
“Risk Management Committee”	the risk management committee of our Company established on 19 December 2014 as a sub-committee under our Audit Committee
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	common share(s)* (普通株式) in the share capital of our Company
“Shareholder(s)”	holder(s) of Share(s) and, for the purpose of this Prospectus, includes our CCASS Beneficial Owners

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## DEFINITIONS

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“Share Acquisition Right(s)” or “SAR(s)”	share acquisition right(s)* (新株予約権), which entitle the holder(s) to acquire share(s) in a company by exercising such rights against such company under the Japan Companies Act
“Share Register”	the share register* (株主名簿) of our Company which, upon Listing, will be maintained by our Hong Kong Share Registrar in Hong Kong
“Sole Bookrunner”, “Sole Global Coordinator”, “Sole Lead Manager” or “Sole Sponsor”	Shenyin Wanguo Capital (H.K.) Limited
“Stabilising Manager”	Shenyin Wanguo Capital (H.K.) Limited
“Stamp Duty Ordinance”	the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong)
“Standards for the Interpretation and Operation of the Amusement Business Law”	guidelines titled “The Standard for Interpreting and Practicing the Act on Control and Improvement of Amusement Business etc. of Japan etc.* (風俗営業等の規制及び業務の適正化等に関する法律等の解釈運用基準について) dated 17 October 2014 and published by the Chief of the Community Safety Bureau of the National Police Agency
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilising Manager and Mr. Taniguchi on or around the Price Determination Date, pursuant to which the Stabilising Manager may borrow up to 45,000,000 Shares to cover any over-allocations in the International Offering
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“South Korea”	The Republic of Korea
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supreme Court (最高裁判所)”	the Supreme Court of Japan* (最高裁判所), being the highest court in Japan

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## DEFINITIONS

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“Taniguchi Consortium”	our Chairman and a group of (1) natural persons, namely Mr. Tatsuo TANIGUCHI (谷口龍雄), Mr. Masataka TANIGUCHI (谷口晶貴), Mr. Yoshihiro TEI (鄭義弘) <sup>#</sup> (also known as Mr. JEONG Jungwung), Mr. Mitsuhiro TEI (鄭允碩), Mr. Motohiro TEI (鄭元碩), Ms. Eijun TEI (鄭盈順), Ms. Rika TEI (鄭理香) and Ms. Noriko KANESHIRO (金城徳子), each being a family member of our Chairman; and (2) corporate entities, namely Jukki Limited* (有限会社十起), Densho Limited* (有限会社伝承), Echo Limited* (有限会社エコー), Daiki Limited* (有限会社大喜), Hokuyo Kanko Limited* (有限会社北陽観光) and KAWASHIMA Co., Ltd.* (株式会社 KAWASHIMA), each being an entity controlled by the family members of our Chairman. Each member of the Taniguchi Consortium is an associate (as defined under the Listing Rules) of, and a person acting in concert (as defined under the Takeovers Code) with, our Chairman and is a Controlling Shareholder. See “History and Corporate Development – Shareholding Structure – Taniguchi Consortium” for details of, and the relationship among, the members of the Taniguchi Consortium
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs
“Tax Adviser”	Zeirishi-Hojin PricewaterhouseCoopers* (税理士法人プライスウォーターハウスクーパース), our Japan tax adviser
“The Bank of Japan”	The Bank of Japan* (日本銀行), the central bank of Japan
“Tokyo (東京都)”	Tokyo Metropolis (東京都), a prefecture and the capital of Japan
“Track Record Period”	the three years ended 31 March 2014 and the six months ended 30 September 2014

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## DEFINITIONS

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“TT Family Trust”	a family trust established pursuant to a trust agreement dated 23 October 2014 for which SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行) acts as the assignee* (受託者) and the assignors and beneficiaries* (委託者兼受益者) are Ms. Yoshika TEI (鄭淑佳)# (also known as Ms. JEONG Sukka), Mr. Kousei TEI (鄭光誠)# (also known as Mr. CHONG Gangsong) and Mr. Kiyokazu TANIGUCHI (谷口清和), each being a child of Mr. Tatsuo TANIGUCHI (谷口龍雄), a Controlling Shareholder, and a nephew or niece of the Chairman. As at the date of this Prospectus, the TT Family Trust is the registered Shareholder of approximately 4.6% of our total number of issued Shares. Mr. Tatsuo TANIGUCHI (谷口龍雄) is entitled to exercise the voting rights in respect of the Shares held by the TT Family Trust. See “History and Corporate Development — Shareholding Structure — Taniguchi Consortium — Family Trusts Arrangements” for details
“Underwriters”	the Hong Kong Underwriter and the International Underwriter
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, including its territories and possessions and all areas subject to its jurisdiction
“US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, and the rules and regulations promulgated thereunder
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s/ applicants’ own name
“ <b>White Form eIPO</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the <b>White Form eIPO</b> Service Provider at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“ <b>White Form eIPO</b> Service Provider”	Computershare Hong Kong Investor Services Limited
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS

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## DEFINITIONS

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“YT Family Trust”	a family trust established pursuant to a trust agreement dated 22 October 2014 for which SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行) acts as the assignee* (受託者) and the assignors and beneficiaries* (委託者兼受益者) are Mr. Akinori TEI (鄭敬憲)# (also known as JEONG Kyeongheon) and Mr. Masahide TEI (鄭將英)# (also known as JEONG Jangyeong), each being a child of Mr. Yoshihiro TEI (鄭義弘)# (also known as JEONG Jungwung), a Controlling Shareholder, and a nephew of our Chairman. As at the date of this Prospectus, the YT Family Trust is the registered Shareholder of approximately 6.0% of our total number of issued Shares. Mr. Yoshihiro TEI (鄭義弘)# (also known as JEONG Jungwung) is entitled to exercise the voting rights in respect of the Shares held by the YT Family Trust. See “History and Corporate Development — Shareholding Structure — Taniguchi Consortium — Family Trust Arrangements” for details
“2014 Tax Reform”	The Act on Partial Revision of the Income Tax Act, etc.* (所得税法等の一部を改正する法律) of Japan (Act No.10 of 2014)
“%”	per cent

\* *The English titles marked with “\*” are unofficial English translations of the Japanese titles of natural persons, legal persons, governmental authorities, institutions, laws, rules, regulations and other entities for which no official English translation exists. These titles are for identification purpose only.*

# *The Japanese names marked with “#” are Japanese aliases\* (通称名) adopted by non-Japanese residents in Japan as a second legal name which, upon registration under the Order for Enforcement of the Residential Basic Book Act\* (住民基本台帳法施行規則) (Ministry of Home Affairs Regulation No. 35 of 1999) of Japan, may be used with legal force and recorded in their resident certificate\* (住民票) and residential basics book card\* (住民基本台帳カード). Unless otherwise marked with “#”, names of natural persons shown in this Prospectus are legal names recorded in their passports or travel documents.*

In this Prospectus, unless expressly stated or the context requires otherwise:

- all data in this Prospectus is as at the date of this Prospectus;
- any reference to shareholdings in our Company upon or after the completion of the Global Offering assumes that the Over-allotment Option has not been exercised; and
- certain amounts and percentage figures have been subject to rounding adjustments, thus, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains definitions of certain technical terms used in this Prospectus as they relate to us. Some of these definitions may not correspond to the standard industry meaning.*

“anti-social force(s)”	organisation(s) or individual(s) who pursues economic benefit through violence, threat or fraudulent methods as defined in the Guidelines for Enterprises to Prevent Damage caused by Antisocial Organisations* (企業が反社会的勢力による被害を防止するための指針) published on 19 June 2007
“attacker”	a larger pocket in a pachinko machine’s playing field which opens for limited periods of time during jackpot mode
“G-prize”	a prize offered by a pachinko hall, namely a decorative plastic card with a small embedded piece of metal (such as gold) or a small coin-shaped pendant of metal (such as gold), which can be sold by customers to a G-prize buyer for cash
“G-prize buyer”	an independent party in the business of operating G-prize buying centre(s) which purchase G-prizes for cash from pachinko players outside of pachinko halls, and subsequently sell G-prizes to G-prize wholesaler(s), and a party to the Three Party System
“G-prize mark-up”	difference between the value of the number of balls or tokens required to collect a G-prize and the cost of the G-prize
“G-prize wholesaler”	an independent party in the business of purchasing G-prizes from G-prize buyer(s), and subsequently selling G-prizes to pachinko hall operator(s), and a party to the Three Party System
“gaming”	in the context of an industry sector, as defined by EBI, the industry sector consisting of pachinko, bicycle-racing, auto-racing, horse-racing and lottery
“general prize”	any prize offered by a pachinko hall that is not a G-prize
“gross pay-ins”	amount received from customers for rented pachinko balls and pachislot tokens
“gross payouts”	aggregate cost of G-prizes and general prizes exchanged by customers



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## GLOSSARY OF TECHNICAL TERMS

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“high playing cost machine(s)”	pachinko machine(s) with a playing cost of ¥4 per pachinko ball, and pachislot machines with a playing cost of ¥20 per pachislot token, each of which is the maximum playing cost (exclusive of consumption tax) possible stipulated under the Enforcement Ordinance
“IC card”	a card used to store the balance of cash and pachinko balls or pachislot tokens remaining in the machine after the player finishes playing
“island”	a long row of (in our case, around 10-24) pachinko or pachislot machines in a pachinko hall
“jackpot mode”	a mode of a pachinko game triggered by certain winning combinations of images on the screen in the centre of the field of play, during which the attacker opens and releases a relatively large number of balls or tokens when the jackpot is hit
“jackpot probability”	probability of triggering the jackpot mode, during which a relatively large number of balls and tokens may be won
“jackpot size”	number of balls or tokens that won during the jackpot mode
“jet counter”	a device that automatically counts pachinko balls or pachislot tokens collected and issues a printed ticket displaying the number of balls or tokens collected
“low playing cost machine(s)”	pachinko machine(s) with playing costs of ¥0.5, ¥1, ¥1.25 and ¥2 per pachinko ball (before consumption tax) and pachislot machines with playing costs of ¥2, ¥5 and ¥10 per pachislot token (before consumption tax)
“pachinko”	in the context of a game machine, a game played on a device similar to a pinball machine which is played for entertainment and prizes; in other contexts (such as our business or the industry), includes both pachinko and pachislot
“pachinko ball(s)” or “ball(s)”	small metal ball(s) used to play pachinko games
“pachinko hall(s)” or “hall(s)”	a facility providing pachinko and/or pachislot games
“pachinko hall operator(s)” or “hall operator(s)”	an entity that operates pachinko hall(s), such as ourselves, and a party to the Three Party System
“pachislot”	a game played on a device similar to a slot machine which is played for entertainment and prizes

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## GLOSSARY OF TECHNICAL TERMS

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“pachislot token(s)” or “token(s)”	small metal token(s) used to play pachislot games
“payout ratio”	total number of balls or tokens won divided by the total number of balls or tokens played, representing the average probability of winning balls or tokens when playing the machines
“pins”	small, cylindrical pegs affixed on the pachinko machine’s playing field
“POS system”	point of sale system used in our pachinko halls for the exchange of pachinko balls and pachislot tokens for prizes
“revenue”	<p>in the context of our total revenue, revenue from pachinko and pachislot hall operations, together with revenue from hotel operations</p> <p>in the context of our pachinko and pachislot hall operations, revenue from pachinko and pachislot business, together with vending machine income</p> <p>in the context of our pachinko and pachislot business, gross pay-ins less gross payouts</p>
“revenue margin”	gross pay-ins less gross payouts, divided by gross pay-ins, representing the portion of gross pay-ins that the hall operator receives as revenue, namely through customers playing the machines and mark-ups on prize redemption
“sq.m.”	square metre
“Three Party System”	the industry practice under which pachinko hall operators, G-prize buyers and G-prize wholesalers participate in the sale and purchase of G-prizes obtained by a customer of a pachinko hall operator by playing pachinko and pachislot machines in Japan, as described in more detail in “Business — Pachinko and Pachislot Hall Operations — Three Party System” and “Applicable Laws and Regulations”
“trap”	a pocket at the bottom of a pachinko machine’s playing through which pachinko balls are lost

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## FORWARD-LOOKING STATEMENTS

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This Prospectus includes forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds”. These forward-looking statements include, without limitation, statements relating to: our business strategies and plan of operation, our capital expenditure plans, financing sources, the amount and nature of, and potential for, future development of our business, our operations and business prospects, our dividend policy, new halls under construction or planning, the regulatory environment of our industry in general, future development in our industry, and general economic and political trends in Japan.

The words “aim”, “anticipate”, “believe”, “can”, “estimate”, “expect”, “seek”, “plan”, “intend”, “project”, “may”, “ought to”, “will”, “would” and “could”, or similar expressions or the negative thereof, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this Prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- general economic, market and business conditions and levels of leisure and consumer spending;
- the commercial performance of our pachinko and pachislot hall operations;
- the effects of competition in the pachinko industry;
- various business opportunities that we may pursue;
- pending or future legal or regulatory proceedings;
- changes in tax laws or rates;
- changes in regulatory policies, the regulatory framework and laws and regulations in relation to the pachinko industry in Japan; and
- changes in general political, economic, legal and social conditions in Japan.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not

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## **FORWARD-LOOKING STATEMENTS**

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place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in “Risk Factors”.

In this Prospectus, statements of or references to our intentions or that of any of our Directors are made as at the date of this Prospectus. Any such intentions may change in light of future developments.

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## RISK FACTORS

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*You should carefully consider all of the information in this Prospectus, including the risks and uncertainties described below, prior to investing in our Shares. You should pay particular attention to the fact that we conduct our operations in Japan and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Any of the below risks, as well as other risks and uncertainties that have not yet been identified or that we currently think are immaterial, may materially and adversely affect our business, financial condition or results of operations, or otherwise cause the trading price of our Shares to decrease and cause you to lose all or part of your investment.*

### **RISKS RELATING TO G-PRIZE WHOLESALERS AND G-PRIZE BUYERS**

#### **Our business depends significantly on the services provided by our G-prize wholesalers and their G-prize buyers**

We rely upon the continued services of our G-prize wholesalers (from whom we source G-prizes) and their G-prize buyers (from whom they in turn source G-prizes), who are independent of us. G-prizes make up the vast majority of prizes redeemed by our customers. For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, the value of G-prizes exchanged by our customers at our halls constituted approximately 99.0%, 99.1%, 99.1% and 98.3% of all prizes (namely, all G-prizes and general prizes), respectively.

We enter into various agreements with our G-prize wholesalers, such as purchase agreements for G-prizes (or even general prizes) and lease agreements for a parcel of land on which the relevant pachinko hall is located. To the best of our Directors' knowledge and belief, our G-prize wholesalers will enter into similar agreements with their G-prize buyers. We currently have non-exclusive relationships with 12 G-prize wholesalers, who in turn have arrangements with various G-prize buyers. The termination of any of our arrangements with our G-prize wholesalers, or of the arrangements between any of our G-prize wholesalers and their G-prize buyers, would cause a disruption in our business. We would have to engage other G-prize wholesalers, who would then need to engage their own G-prize buyers. The arrangements and dealings between the G-prize wholesalers and the prize buyers are beyond our control. We or they may not be able to establish new arrangements on terms acceptable to us or them or at all, which would have a material adverse effect on our business, financial condition, results of operations or prospects. In any case, we have no ownership or managerial control over any of our G-prize wholesalers or their G-prize buyers. We cannot assure you that they will at all times strictly adhere to the terms of the relevant agreements.

#### **We may be adversely affected by any breach of the independence requirements under the Three Party System.**

Gambling is a criminal offence under the Penal Code. Further, the Amusement Business Law and its ancillary prefectural local regulations prohibit pachinko hall operators from being involved in the exchange of prizes by customers, whether directly or indirectly, for cash or securities. In order to ensure compliance with such laws and regulations, the pachinko industry has developed the "Three Party System", which is an industry practice for the sale and purchase of G-prizes exchanged by a customer playing at a hall. The parties under the Three Party System include: (1)

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## RISK FACTORS

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pachinko hall operators (such as ourselves); (2) G-prize buyers; and (3) G-prize wholesalers. See “Applicable Laws and Regulations – C. Legality of Pachinko Businesses and the Three Party System” for details. Under the Three Party System, pachinko hall operators (such as ourselves) must be independent of each of: (1) the G-prize wholesalers engaged by them; and (2) G-prize buyers engaged by their G-prize wholesalers. This ensures that, from the pachinko hall operators’ perspective, G-prize wholesalers and G-prize buyers are unrelated third parties.

If there is a breach of either of the independence requirements, this may expose us to a potential breach of the Penal Code, the Amusement Business Law and other local regulations. Such breaches could disrupt our business operations at the affected business halls, as we will need to immediately rectify the situation by ceasing transactions with the G-prize wholesaler, or if relevant, requesting the G-prize wholesaler to cease transactions with the G-prize buyer. In particular, if we had to cease transactions with a G-prize wholesaler, all of its G-prize buyers will also need to be replaced and we will need to enter into new agreements with another independent G-prize wholesaler.

### **RISKS RELATING TO KEY JAPAN LEGAL AND REGULATORY MATTERS**

#### **Rights of shareholders under Japan law may be different from rights of shareholders in other jurisdictions, including Hong Kong**

We are primarily governed by Japan law, including the Japan Companies Act. Our Articles and the Japan Companies Act govern our corporate affairs. Legal principles relating to matters such as the validity of corporate procedures, directors’ fiduciary duties and liabilities and shareholders’ rights under Japan law may be different from those that would apply to a company incorporated in any other jurisdictions that you (as potential investors) may be more familiar with, including Hong Kong. You may have more difficulty in asserting your rights as a Shareholder than you would as a shareholder of a corporation organised in other jurisdictions. Key differences between the shareholders protection regimes in Japan and Hong Kong are set out in “Key Japan Legal and Regulatory Matters – G. Shareholders Protection”.

In addition, we have applied for, and have been granted, waivers from the Stock Exchange from strict compliance with certain requirements under the Listing Rules. These waivers include (i) requiring our Controlling Shareholders or other Shareholders having an interest in a transaction to abstain from voting in a general meeting; and (ii) issuing a supplemental circular for persons nominated as Directors, amongst others. Shareholders will not have the benefit of those Listing Rules for which we have applied, and have been granted waivers from the Stock Exchange. Additionally, if any of these waivers were to be revoked for any reason, including our compliance with the applicable undertakings, additional legal and compliance obligations might be costly and time consuming, and might result in issues of inter-jurisdictional compliance, which could adversely affect us and our Shareholders.

The SFC does not have extra-territorial jurisdiction on any of its powers of investigation and enforcement of any corporate governance breaches committed by us in Japan. Investors should be aware that it could be difficult to enforce any judgment against us or any of our subsidiaries.

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## RISK FACTORS

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### **Our Shares are “bearer shares” in nature and there are significant risks associated with physical possession of share certificates**

Under Japan law, our Shares are “bearer shares” in nature. A bearer, or a physical holder, of a share certificate issued by our Company is recognised as the owner of the Shares represented by it. Ownership of our Shares can be transferred simply by the delivery of our share certificates, with or without the transferor and the transferee having signed any document evidencing such transfer. This creates inherent risks for Shareholders and potential investors who choose to hold our Shares by physical possession of our share certificates. For example, Shareholders and potential investors might lose the ownership and value of our Shares represented by a share certificate if it is lost or destroyed. In addition, an unauthorised third party might come into possession of a lost share certificate and seek to be recognised as a Shareholder.

We have procedures in place for Shareholders and other eligible persons to report a lost or destroyed share certificate. See “Key Japan Legal and Regulatory Matters — A. Bearer Shares — Lost / destroyed Share Certificates” for details. Investors should note that we are required by law to impose a one-year waiting period before a replacement share certificate can be re-issued. During the mandatory one-year waiting period, you may not register a transfer of the Shares represented by the lost or destroyed share certificate or otherwise deposit such Shares into CCASS for trading on the Stock Exchange. You may also lose some of your rights as a Shareholder, such as voting rights, under certain limited circumstances.

Notwithstanding the “bearer” nature of our Shares, it is provided under our Articles and the Japan Companies Act that title to our Shares shall not be perfected against our Company until and unless a person’s name and address are recorded in our Share Register. Under article 130 of the Japan Companies Act, a company is not obliged to treat anyone as a shareholder unless and until he/she is registered as a shareholder on its share register. As an enhanced measure of Shareholder’s protection, our Articles provide that our Company shall not associate any Shareholders’ right (such as voting rights and rights to receive dividends) with any person unless his/her name appears on our Share Register in reliance on the above provision under the Japan Companies Act. As such, failure to register interests in our Shares in our Share Register could result in the misappropriation or loss of a Shareholder’s rights. In addition, under Japan law, our Company does not have the right to take action against a Shareholder’s failure to disclose his/her interests to our Company. Hence, potential investors are strongly cautioned to register your interests in our Shares in our Share Register after you have properly acquired title in our Shares, following the procedures set out in “Key Japan Legal and Regulatory Matters — A. Bearer Shares — Transfer of Shares”.

CCASS Beneficial Owners who do not physically possess our share certificates are not subject to the risks associated with the “bearer” nature of our Shares and are not required register their interests in our Share Register. Despite certain disadvantages associated with CCASS Beneficial Owners, details of which are set out in “Key Japan Legal and Regulatory Matters — A. Bearer Shares — Recommended measures for our Shareholders and potential investors”, it is our Board’s strong recommendation that potential investors should hold your investments in our Company through CCASS.

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## RISK FACTORS

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### **CCASS Beneficial Owners are subject to certain disadvantages under Japan law and regulations**

Due to certain Japan legal and regulatory provisions, CCASS Beneficial Owners are subject to certain disadvantages as set out in detail in “Key Japan Legal and Regulatory Matters — A. Bearer Shares — Recommended measures for our Shareholders and potential investors”. For example, CCASS Beneficial Owners are subject to a higher withholding tax rate, and they may not inspect our Share Register unless allowed to do so under the Personal Information Protection Act.

Despite these disadvantages, given the risks associated with our “*bearer*” Shares (which are very significant in the opinion of our Directors), it is our Board’s strong recommendation that potential investors should hold your investments in our Company through CCASS.

### **Our Articles provisions on the registration of share transfers are not judicially precedented in Japan and may be challenged in court**

To minimise our Shareholders’ exposure to the risks associated with the “*bearer*” nature of our Shares, we have put in place a number of voluntary measures in relation to the registration of ownership and transfers of our Shares in our Share Register. For example, our Articles require that any person seeking to have his name and address recorded as a Shareholder in our Share Register must present an acceptable transfer document that conforms to the requirements under the Stamp Duty Ordinance and duly stamped and executed by the transferee and the record Shareholder as the transferor.

There is no clear Japan case law that supports our Articles provisions in relation to the registration of share transfers. It is possible for a bearer of our share certificates to initiate legal proceedings against us in this regard. If we fail to defend ourselves in these legal proceedings, we may need to implement additional compliance procedures which might be costly, such as the appointment of an additional Japan share registrar to handle registration of share transfer free from any documentary requirements, and significantly inflate our Shareholders’ exposure to risks associated with physical possession of our share certificates.

### **Surrendered share certificates can only be re-issued after a waiting period of up to six business days, which could result in settlement failures**

Shareholders and potential investors who choose to invest outside CCASS are encouraged to surrender their share certificates to us, in which case the relevant share certificates will be cancelled and the risks associated with our “*bearer shares*” will no longer apply. However, you should note that our Hong Kong Share Registrar may take up to six business days to re-issue a new share certificate in lieu of a surrendered share certificate. During the waiting period of up to six business days, the relevant Shares may not be transferred or otherwise deposited into CCASS for trading on the Stock Exchange. This will ‘in particular’ affect Shareholders and potential



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investors who seek to trade the Shares on a “T+2” basis, whereby dealings in Shares on the Stock Exchange customarily take place two business days prior to settlement. The waiting period of up to six business days may lead to settlement failure and investors are strongly advised to formulate your investment schedule in accordance with this waiting period.

### **Investors that are non-resident individuals of Japan or non-Japanese corporations without a permanent establishment in Japan are subject to Japan withholding tax on dividend distribution**

Our Tax Adviser has advised us that Shareholders interested in less than 3% of our total number of issued Shares that are non-residents individuals of Japan or non-Japanese corporations without a permanent establishment in Japan are subject to Japan withholding tax of 15.315% for any dividend distributions due and paid on or before 31 December 2037. Shareholders holding 3% or more of our total number of issued Shares are subject to a withholding tax in Japan of 20.420% for any dividend distributions due and paid on or before 31 December 2037. Shareholders that are either residents in Hong Kong or corporations established in Hong Kong without any permanent establishment in Japan are entitled to a reduced withholding tax rate not exceeding 10% (or not exceeding 5% for corporate Shareholders who are interested in 10% or more of our total number of issued Shares for the six consecutive months ending on the record date for dividend distribution) under the Hong Kong-Japan Tax Treaty. See “Key Japan Legal and Regulatory Matters — E. Taxation — 1. Withholding Tax on Dividend Payment” for details.

Potential investors should note that, due to the inherent characteristics of CCASS, our Company is unable to ascertain the identity, and consequently the tax residence, of the CCASS Beneficial Owners. As such, we will initially withhold 20.420%, which is the highest possible withholding tax rate in Japan, on all dividend payments to CCASS Beneficial Owners. CCASS Beneficial Owners are not entitled to tax relief under the Hong Kong-Japan Tax Treaty. Investors who choose to invest through CCASS are subject to a higher withholding tax rate.

### **Minority Shareholders may incur significant time and costs in initiating court procedures in Japan against the acquisition price in a compulsory acquisition**

Under the Japan Companies Act and other relevant Japan laws and regulations, an offeror of a successful takeover may, having acquired 90% of the voting rights in our Company, buy out the remaining Shares of the minority Shareholders by initiating a number of transactions with or without Shareholders’ approval.

Unlike the compulsory acquisition regime under the Companies Ordinance, there is no restriction under the relevant Japan laws and our Articles on the acquisition price of these transactions. Minority Shareholders may need to resort to a number of court procedures in Japan to (i) request the court to cease the relevant transactions; or (ii) determine a fair acquisition price. There may be significant delays and costs involved in the initiation of the aforementioned court procedures. See “Appendix V — Summary of our Articles of Incorporation and Japan Corporation Law — 8. Compulsory Acquisitions” for details of the said transactions and court procedures.

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### **You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management**

Our Company was incorporated under the laws of Japan. All our current operations and administrative and corporate functions are conducted in Japan, and substantially all of our assets and our subsidiaries are located in Japan. In addition, all of our Directors and Executive Officers reside within Japan, and most of the assets of our Directors and Executive Officers are located within Japan. As a result, it may not be possible to effect service of process outside Japan upon any of these persons or our Company, or to enforce any judgments obtained in courts outside of Japan against them or us. Further, judgments of a court in a foreign jurisdiction related to any matter may not be recognised or enforced in Japan. In addition, it is uncertain whether courts in Japan would have the legal authority to hear the original actions brought against us or such persons predicated upon the laws of other jurisdictions.

### **Investors may under certain circumstances be required to file a foreign exchange report or notification to The Bank of Japan, failure of which could lead to monetary fines and/or imprisonment**

The Foreign Exchange and Foreign Trade Act of Japan\* (外国為替及び外国貿易法) of Japan (Act No. 228 of 1949) and the cabinet orders and ministerial ordinances thereunder govern certain matters relating to the issue of equity-related securities by us and the acquisition, holding and disposal of Shares by foreign investors of our Company. Under certain prescribed circumstances, Shareholders and CCASS Beneficial Owners may be required to file a foreign exchange report or notification to The Bank of Japan.

The filing obligations are generally exempted if: (i) a Shareholder or CCASS Beneficial Owner is a resident of, or a corporation organised under the laws of, certain exempted jurisdictions (which include Hong Kong, the U.S., the United Kingdom, Canada, Australia, the PRC, among others); and (ii) their shareholding interests in our Company is less than 10%.

Failure to notify The Bank of Japan when required may result in imprisonment of up to three years and/or a fine of up to ¥1 million. See “Appendix V — Summary of our Articles of Incorporation and Japan Corporation Law — 10. Foreign Exchange Control” for the list of exempted jurisdictions and the details of the relevant filing requirements.

## **RISKS RELATING TO OUR BUSINESS**

### **We experienced decreased gross pay-ins for the six months ended 30 September 2014 compared to the corresponding period of the previous year, and we cannot guarantee that our results will improve**

Our gross pay-ins decreased by ¥29,685 million, or 24.6%, from ¥120,674 million for the six months ended 30 September 2013 to ¥90,989 million for the six months ended 30 September 2014. The decrease in gross pay-ins in our halls was mainly due to decreases in player traffic, as a result of our new policy of imposing mark-ups ranging from 4% to 20% (with an average of around 10%) on G-prize redemption, effective from 1 April 2014. Such initiative was imposed with

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## RISK FACTORS

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a view to enhance the performance of our halls and to cover the increase in consumption tax from 5% to 8%. Subsequently, a portion of players who focus on the payout aspect of the game were discouraged from playing at our halls. A significant decrease in the utilisation rate of our machines was also recorded during this period. See “Financial Information — Period to Period Comparison of Results of Operations — Gross Pay-ins” for details.

Our business, financial condition and results of operations are affected by many factors as discussed in this Prospectus, many of which are beyond our control. We cannot guarantee that our results of operations will improve in the future. If our results of operations deteriorate, the price of our Shares may drop. See “Business — Strategies” and “Future Plans and Use of Proceeds” for details on how we intend to improve our business.

### **Our financial results for the year ending 31 March 2015 are expected to be affected by certain one-off expenses**

We currently expect certain one-off expenses to have a negative impact on our financial results for the year ending 31 March 2015. These include listing expenses in relation to the Global Offering and a retirement payment to a retired Director.

Regarding listing expenses, the total expenses in relation to the Global Offering (comprising principally professional fees and underwriting commission) are estimated to be approximately ¥1,149 million (approximately HK\$76 million) (assuming an Offer Price of HK\$1.19 per Share (being the mid-point of the proposed Offer Price range)) of which approximately ¥340 million (approximately HK\$22 million) is directly attributable to the issue of new shares to the public and to be accounted for as a deduction from equity, and approximately ¥809 million (approximately HK\$54 million) is to be recognised as expenses in our consolidated statements of comprehensive income for the year ending 31 March 2015. During the six months ended 30 September 2014, we already incurred ¥226 million (approximately HK\$15 million) which were accounted for as our administrative and other operating expenses. Therefore, by the completion of the Global Offering, we expect to incur an additional approximately ¥583 million, to be accounted for as our administrative and other operating expenses for the six months ending 31 March 2015. The amount of additional listing expenses expected to be incurred for the completion of the Global Offering is an estimate only and the final amount to be recognised as expenses in our consolidated statement of comprehensive income for the year ending 31 March 2015 is subject to adjustments based on audit and changes in circumstances.

Regarding the retirement payment, we paid ¥600 million to Mr. Tatsuo TANIGUCHI (谷口龍雄) during the six months ended 30 September 2014 as special benefit for his retirement as a Director of our Company in June 2014 and a director of Niraku Corporation in September 2014.

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### **Our business may be adversely affected by natural disasters, such as earthquakes like the Great East Japan Earthquake, or disease outbreaks**

Fukushima Prefecture (福島県) is our most important strategic location, in which our headquarters, hotel and 20 of our halls (as at the Latest Practicable Date) are located. In particular, it is the prefecture with the most number of our halls and machines. Our halls in Fukushima Prefecture (福島県) accounted for 40.1%, 40.7%, 40.5% and 42.7% of our total revenue for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively.

In March 2011, the Great East Japan Earthquake struck the Tōhoku Region (東北地方), northeast of Japan. This earthquake triggered tsunami waves that struck the north-eastern coast of Japan, and caused (among others) the nuclear power plant incident in Fukushima Prefecture (福島県), causing the lingering public concern over radiation levels.

As a result of the Great East Japan Earthquake, we recorded earthquake losses (namely, property damage) of ¥653 million for the year ended 31 March 2011. It caused us to temporarily close a majority of our halls, namely 32 halls, of which 11 halls were reopened within two weeks, 17 halls were reopened within four weeks, one hall was reopened within six weeks, two halls were reopened within eight weeks and one hall was reopened within 13 weeks. We also had to permanently close one hall (that was located within the exclusion zone in Fukushima Prefecture (福島県) implemented by the Japanese government). For this one permanently closed hall, we entered into alternative dispute resolution (namely, mediation of settlement before the Nuclear Damage Compensation Dispute Resolution Center\* (原子力損害賠償紛争解決センター), an administrative alternative dispute resolution institution established by the Japanese government specifically to deal with nuclear damage compensation claims arising from this nuclear power plant incident) with the operator of the affected nuclear plants, Tokyo Electric Power Company, Incorporated\* (東京電力株式会社), which compensated us ¥590 million (recorded as other income for the six months ended 30 September 2014), mainly for our loss of profits incurred during the one-year period after the Great East Japan Earthquake and also related property damages (including loss of all movables such as machines and islands). Our Directors are considering the most appropriate method to obtain compensation for loss of profits for subsequent years which we may not get. Aside from this permanently closed hall, none of our halls is within the exclusion zones implemented by the Japanese government. See “Business — Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake” for details, including information regarding the exclusions zones and the earthquake’s positive effect on the working population and financial results of our halls in Fukushima Prefecture (福島県).

Japan is one of the most seismically active countries in the world and it also regularly experiences typhoons and other natural disasters. Any large earthquake, other natural disaster or outbreak of an epidemic can adversely impact our employees or our ability to continue operating our pachinko facilities, our suppliers’ ability to continue their manufacturing or other operational activities, or our customers (thus, causing a decrease in discretionary spending and demand in our offerings). Ultimately, these events can cause significant disruption to our business operation.

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## **RISK FACTORS**

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We do not maintain any earthquake insurance or business interruption insurance. Damage to any of our offices or pachinko halls due to fire, earthquake, typhoon, flood, terrorism, outbreaks such as the H1N1 pandemic, avian flu or other man-made or natural disasters or casualty events may materially and adversely affect our business, financial condition and results of operations.

### **We face the risk of fraud or cheating**

Players at our halls may attempt to commit fraud or otherwise cheat in order to increase the number of pachinko balls and pachislot tokens they collect. Acts of fraud or cheating could involve, among others, the use of altered or counterfeit pachinko balls or pachislot tokens, tampering with our machines and systems, or other tactics, possibly in collusion with our employees. For example, customers may attempt to use magnets or sheer physical force to influence the movement of pachinko balls. Instances of illegal or fraudulent activity of a minor or insignificant nature by customers in our pachinko halls are detected approximately once per hall per month.

To prevent fraud or cheating, we have anti-cheating and anti-counterfeiting surveillance systems. We cannot assure you that our efforts to prevent cheating will be effective, and any failure to discover such acts or schemes in a timely manner could result in losses in our pachinko operations. In addition, negative publicity related to such acts or schemes could have an adverse effect on our reputation, thereby materially and adversely affecting our business, results of operations, financial condition and prospects. Further, an allegation or a finding of improper conduct on our part, or on the part of our current or future employees, or an actual or alleged system security defect or failure attributable to us, could be deemed to be a regulatory breach for which we could be subject to revocation or suspension of our operating licence for the relevant pachinko hall.

### **Anti-social forces might have an influence in the pachinko industry**

Historically, the pachinko industry was associated to anti-social forces. We cannot assure you that we will be able to prevent anti-social forces from interfering in our operations. In addition, anti-social forces may engage in criminal activities, such as theft of cash or fraud, through involvement with G-prize buyers or other third parties that we do not have control over. Any involvement by anti-social forces in our operations or the pachinko industry in general, including the ensuing negative publicity, could materially and adversely affect our reputation, business, results of operations and financial condition, and also the reputation and perception of our industry as a whole.

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## RISK FACTORS

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### **We rely heavily on our information technology systems, which could be subject to unexpected interruption or security breaches**

We rely heavily on our information technology systems, which store, retrieve, process and manage substantial amounts of real-time data and information, including personal information of our members (and the number of balls or tokens carried over) that is stored in our membership database servers. These systems help facilitate our business decision-making process and formulate strategies for machine replacement and procurement, marketing, prize procurement and inventory management.

Such systems are inherently susceptible to the risks of hardware, software or network failure, which would materially impact our ability to conduct our business. Our growing operations will place increasing pressure on our server and network capabilities as we seek to increase our number of halls and customer base. In addition, we rely on third-party service providers for certain key aspects of our network infrastructure and technology systems.

In addition, our systems are susceptible to security breaches caused by hackings, which involve efforts to gain unauthorised access to our information or systems, or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, the intentional or inadvertent transmission of computer viruses and similar events or third-party actions. These could have a material and adverse effect on our reputation, business, financial condition and results of operations. It may be difficult for us to respond to security breaches in a timely manner or at all. If unauthorised persons are able to penetrate our network security, they could misappropriate personal information regarding our members, or cause interruptions in our services. See “— We may be subject to liability for failure to maintain compliance with Japan’s privacy laws in connection with our membership system and database” for details. In addition, hacking and computer viruses could expose us to a material risk of loss or litigation and possible liability under Japan’s privacy laws. See “Applicable Laws and Regulations — G. Personal Information Protection” for details.

### **If we lose the services of our third-party information technology systems contractor, our operations may be seriously disrupted**

Our information technology network was developed in conjunction with, and is maintained by, a third party contractor. We rely on our third party contractor to maintain the network and infrastructure underlying our information technology systems, to provide technical assistance to us on an ongoing basis, and to upgrade our systems when and as necessary. Any failure by our third party contractor to maintain the satisfactory performance, reliability, security and availability of our network infrastructure may adversely affect our ability to operate our business in an efficient and effective manner.

The termination of our arrangements with our third party contractor for any reason could cause disruption in our business operations. In the event of such a termination, we would have to seek other means of maintaining our information technology systems, which may include the acquisition of equipment, the licensing of software and the development, either internally or through independent consultants or third party contractors, of new software. If we are unable to

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design, develop, implement and/or maintain, in a cost-effective manner, information systems that provide the capabilities necessary for us to compete effectively, or if we suffer any interruption or loss of our information processing capabilities for any reason, our operations could be materially disrupted.

### **Prices for construction and engineering services have increased rapidly**

Demand for construction and engineering services has increased dramatically in Japan in recent years, due to reconstruction efforts following the Great East Japan Earthquake, and also for the infrastructure development and construction in preparation for the 2020 Olympic Games to be held in Tokyo (東京都). This has in turn caused prices for such services, including labour costs and the relevant raw materials such as steel, to increase dramatically. This has caused our hall construction costs to increase and may continue to do so in the near future.

Our pachinko halls may not necessarily be constructed on time either, as work completion can be delayed due to shortages of manpower in light of the increased demand for construction and engineering services.

### **Our business may be affected by downturns in the economy (such as the recent recession of the Japanese economy), economic uncertainty and other factors affecting discretionary consumer spending**

An extended economic downturn or continued uncertainty in global and regional economies could negatively affect demand for the type of gaming and entertainment services we offer. Changes in discretionary consumer spending or consumer preferences could be driven by factors such as perceived or actual general economic conditions, a weakening job market, or an actual or perceived decrease in disposable consumer income and wealth. These and other factors have in the past reduced consumer demand for the gaming and entertainment services we offer and have adversely affected our gaming business, results of operations and financial condition, and if we are not successful in responding to future changes in consumer spending trends, could further affect our future prospects.

For example, the economy of Japan recently entered into a recession in late 2014. We cannot assure that the economy of Japan will improve or that government responses to these conditions will successfully address weaknesses in the economy of Japan, restore consumer confidence or increase market liquidity. Continued weakness in the economy of Japan, where we conduct all of our business operations and where the vast majority of our customers reside and/or generate their income, may result in a reduction of the number of customers, a reduction in the frequency of visits by these customers, or a reduction in the amount of money spent by these customers in our pachinko halls. Any reduction in consumer demand for the services we offer would materially and adversely affect our revenue and, as a result, our business, financial condition and results of operations.



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### **We may be subject to liability for failure to maintain compliance with Japan's privacy laws in connection with our membership system and database**

We are subject to Japan's Personal Information Protection Act, which regulates the collection, use, handling, and transfer of personal information. See "Applicable Laws and Regulations — G. Personal Information Protection". We maintain an extensive membership database that collects, stores and analyses information on our 238,939 registered members (as at 30 September 2014), including personal information such as each member's name, address, age, gender and date of birth. The mishandling of any of our members' personal information, such as through internal leaks, misappropriation by an unauthorised third party, or other unauthorised use by us or a third party, may be required by the relevant authorities to be reported to them and is encouraged to be disclosed to the public, and could subject us to civil and/or criminal liability and significantly damage our reputation.

### **We may require additional financing to expand our business, which may not be available on satisfactory terms or at all**

We have in the past funded our business and operational expansion primarily through cash generated from our operations and external bank borrowings. We may require additional funding in the future to further expand our business, which we may raise through external financing. Our ability to obtain any financing on acceptable terms depends on a variety of factors that are beyond our control, including market conditions, investors' and lenders' perceptions of, and demand for, debt and equity securities of pachinko companies, credit availability, and interest rates; the availability of, and likely terms for, debt financing may be adversely affected by recent developments in the global economy. As a result, we cannot assure you that we will be able to obtain sufficient funding from external sources as required on terms satisfactory to us, or at all, to finance future expansion. If we raise additional capital through the sale of equity, or securities convertible into equity, further dilution to our then-existing shareholders will result. If we raise additional capital through the incurrence of debt, our business may be affected by the amount of leverage we incur. For instance, such borrowings could subject us to covenants restricting our business activities, servicing interest would divert funds that would otherwise be available to support our operations or development activities, and holders of debt instruments would have rights and privileges senior to those of our equity investors. If we are unable to obtain adequate funding on a timely basis, we may not be able to execute parts of our growth strategy or to maintain our growth and competitiveness, which could materially and adversely affect our business, results of operations, financial condition and prospects.

### **The failure to fulfil conditions imposed under our loan facilities may limit our ability to conduct our operations or obtain additional financing**

As at 31 January 2015, we had outstanding indebtedness of ¥21,673 million (equivalent to approximately HK\$1,431 million as calculated using the rate of ¥15.15 to HK\$1.00, which was the exchange rate prevailing on 30 January 2015, being the last business day before the date of our indebtedness statement). See "Financial Information — Indebtedness". Our loan facilities and credit agreements impose certain conditions, including financial covenants, that restrict our



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ability to engage in certain transactions. In particular, our credit facilities require, among other things, our Group companies to maintain specified financial ratios and net assets, and contain restrictions on ordinary losses, which may limit our ability to conduct our operations or obtain additional financing.

Although we have not breached any of these covenants during the Track Record Period, our ability to comply with these covenants in the future may be affected by events beyond our control, including prevailing economic, financial and industry conditions. As a result, we may not be able to comply with these covenants, including with respect to making our required payments due to insufficient cash flow. Our failure to comply with any of these covenants or to meet our payment obligations could result in an event of default which, if not cured or waived in time, could result in the acceleration of those and other outstanding debt obligations and the enforcement of security and guarantees given in respect of them. We may not have sufficient working capital or liquidity to satisfy our debt obligations in the event of an acceleration of all or a portion of our outstanding obligations.

### **Our pachinko halls may not perform as expected and our strategy of expanding our suburban hall network may not be successful**

Our growth strategy includes the continued opening of new pachinko halls, namely seven new suburban halls in the next three years. See “Business — Strategies — Continue to leverage our strengths and expand our suburban halls network in Northeast Honshu (本州島東北) to extend our leading market position”. We have incurred and will continue to incur significant capital expenditures associated with the construction of new pachinko halls. If we are unable to expand according to our plan, or our assessment of location for opening halls fails to provide us with accurate information to choose suitable site for hall openings, our expansion may not go ahead as planned and our results of operations may be adversely affected. We cannot assure you that we will be able to maintain or improve on our overall profitability. In addition, we may not be able to obtain the necessary financing for our expansion and improvement plans on favourable terms, or at all. We also cannot assure you that an increase in the number of our pachinko halls will lead to a corresponding increase in our revenue, or that we will be able to maintain or grow our market share in the future or otherwise compete effectively. Any failure on our part to successfully implement our current plans for the improvement of pachinko halls, or to effectively manage our growth, would adversely affect our business, financial condition and results of operations.

### **Our success and business operations are largely dependent on certain key personnel and our ability to attract and retain talented personnel**

Our future success depends heavily on the continued services of our Executive Director, senior management and other key employees. In particular, we rely on the expertise, experience and leadership of our Executive Director and our senior management team (including our Executive Officers), who play a vital role in our operations. Our Executive Officers have an average

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of over 15 years experience in the pachinko industry. If one or more of our Executive Director, senior management or other key employees are unable or unwilling to continue in their present positions, we may not be able to replace them promptly, or at all, which may severely disrupt our business and affect our results of operations and future prospects.

Moreover, we may not be able to attract or retain skilled employees or key personnel. The competition for qualified personnel in Japan may also drive up our labour costs, which would in turn increase our costs of operations and affect our profitability. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

### **If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud**

Upon completion of the Global Offering, we will become a public company subject to the reporting obligations of the Stock Exchange. These obligations include, among others, preparing annual and interim reports of our business and results of operations, including financial statements in accordance with IFRS. Our reporting obligations as a public company and implementing necessary internal controls and risk management and policies will place substantial demands on our management and our operational and financial resources. Prior to the Global Offering, as a private company, we only have a limited number of accounting personnel and other resources allocated for addressing our internal controls over financial reporting. In this regard, effective internal controls over financial reporting is necessary for us to produce reliable financial reports and is important to help prevent fraud. We are in the process of training, managing and appropriately expanding our human resources and other components of our business and implementing and maintaining adequate management and financial controls to improve our internal controls in preparation of being a public company, which will likely require us to incur significant costs and devote substantial management time and efforts and other resources. Our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements.

We must continue to improve and maintain our internal controls and risk management to manage our anticipated future growth, regulatory requirements applicable to our business and the growing demands of our business operations. In this regard, any system of controls, however well designed and operated, can only provide reasonable, and not absolute, assurance that the objectives of the system are met. As such, we may be subject to risks arising in relation to our internal controls and risk management, which could have a material adverse effect on our business, results of operations and financial condition and cash flows. We review our internal control policies and procedures on an ongoing basis. In particular, we have engaged an independent third party consultant (the “**Internal Control Consultant**”) to assist us in reviewing the design and effectiveness of certain internal controls in relation to financial reporting of our Group. Their review covered the internal controls in relation to various processes, such as revenue and receivables, purchases and payables, cash and treasury management, human resources, financial reporting, property, plant and equipment, taxation, hall management, prize exchange centre management and IT general controls. Some of the more significant deficiencies identified by the Internal Control Consultant during their initial reviews conducted in September and October 2014 were in areas including: (i) formalisation of documents related to the Board’s

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and Board committees' operations; (ii) formalisation of policies and procedures to monitor and report related party transactions and price sensitive information; and (iii) strengthening of certain information system related controls. We have developed a set of remedial action items to rectify and/or improve the identified deficiencies. All significant findings will be remediated before Listing. In December 2014, the Internal Control Consultant carried out the planned follow-up reviews on the implementation of the remedial actions for the more significant deficiencies and no further recommendation was raised.

However, we cannot assure you that we will be able to successfully address all internal control issues all the time. Further, our existing internal controls may not be sufficient for our future operations as technology and regulatory and compliance environment evolve over time, and we cannot assure you that there will not be new deficiencies in our internal control policies and procedures. Any such deficiency could adversely affect our management's ability to monitor, evaluate and manage our business and operations or risk of inaccurate financial reporting, which in turn could have a material adverse effect on our business, results of operations and financial condition.

### **Our AML policies may not be sufficient in preventing the occurrence of money laundering activities at our pachinko halls**

There is currently no obligation imposed on pachinko hall operators under the AML laws of Japan. Nevertheless, we have voluntarily implemented AML policies, which have been designed, implemented and operating with reference to the guidance letter titled "International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation" issued by the Financial Action Task Force in 2012, as well as the Amusement Business Law. However, we cannot assure you that these policies will be effective to prevent our pachinko operations from being exploited for money laundering purposes. Any incidents of money laundering, accusations of money laundering or regulatory investigations into possible money laundering activities involving us, our employees, or our customers could have a material adverse impact on our reputation and our relationship with regulators, and could consequently materially adversely affect our business, financial condition, results of operations and prospects. Any serious incident of money laundering or regulatory investigation into money laundering activities would likely result in a revocation or suspension of our operating license. For more information regarding our controls, see "Internal Controls and Anti-Money Laundering" and "Appendix IV — Summary of the Review of Anti-Money Laundering Procedures, Systems and Controls".

### **We may not be able to renew leases or other contractual arrangements for the use of existing pachinko halls, or to obtain desirable sites for the expansion of our operations, on satisfactory terms or at all**

We lease properties to operate some of our pachinko halls. As at the Latest Practicable Date, 49 of our pachinko halls were operated on land and/or premises leased by our Group. Accordingly, rental fees account for a significant portion of our operating expenses. For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, the operating lease rental expenses of our Group amounted to approximately ¥2,295 million, ¥2,362 million, ¥2,483 million and ¥1,399 million, respectively, representing approximately 7.6%, 7.2%,

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7.3% and 9.0% of our total revenue for the same periods. Our Directors believe that rental costs that are suitable for operating our pachinko halls will likely increase in the future. Our operating lease obligations expose us to potentially significant risks, including increasing our vulnerability to adverse economic conditions, limiting our ability to obtain additional financing and reducing our cash available for other purposes. The term of our lease agreements typically ranges from 3 to 20 years, and generally provides that we will return the land in its original condition upon expiration or termination of the lease.

In respect of 21 of our pachinko halls, the landowners from whom we lease land hold title to the land and we only hold title to the premises we construct on the land. We are therefore required to demolish any properties that we construct on the land and return it to the lessor as a vacant site. If we are unable to renew or otherwise do not renew these agreements in a timely manner and on commercially reasonable terms or at all, we would have to demolish the pachinko halls at those locations and surrender the land upon expiration of the lease term. Our Directors currently estimate that the maximum potential demolition costs for each pachinko hall premise shall be approximately ¥127.7 million excluding other costs.

We compete with other businesses for prime locations in a highly competitive market for retail premises. There is no assurance that we will be able to enter into new lease agreements for attractive locations or renew existing lease agreements on commercially reasonable terms, if at all. Therefore, any inability to obtain leases for desirable pachinko hall locations on commercially terms could have a material adverse effect on our business and results of operations.

After identifying a potential site for establishing a new pachinko hall, we must make the relevant applications and obtain construction permits pursuant to the City Planning Act\* (都市計画法) (Act No. 100 of 1968) and the Building Standard Act\* (建築基準法) (Act No. 201 of 1950). We must also obtain prefectural approval for a license to operate a pachinko business at that site. If we are unable to locate desirable sites and enter into lease agreements for sites on which we intend to construct new pachinko halls, or obtain the requisite licences and/or approvals from the relevant local authorities, we may not be able to expand our business and operations as planned. Even with the requisite permits and approvals, we cannot assure you that the halls we establish on the properties we identify will be successful or attract customers.

**Our current pachinko hall locations may become unattractive, and we may not be able to identify and obtain attractive new locations at reasonable terms, if at all**

The success of any pachinko hall depends in substantial part on its location. There can be no assurance that our current pachinko hall locations will continue to be attractive. The economic conditions or demographic patterns of the neighbourhood where our pachinko halls are located could decline in the future, thus potentially resulting in reduced sales and customer flow in these locations.

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**We may not be able to procure machines that continue to attract and retain customers as player preferences and market trends evolve over time, or at desirable costs as machine costs have increased steadily during the Track Record Period**

As a pachinko hall operator, our revenue from pachinko and pachislot business is dependent on the amount of money that customers spend playing on our machines. Therefore, to remain competitive and maintain customer interest, we must constantly acquire and provide new and varied pachinko and pachislot machines. Machine costs comprise a significant portion of our operating expenses. Although we have been able to realise cost efficiencies due to our operating scale and our machine procurement strategies, machine costs remain largely out of our control, and average unit prices of pachinko machines have increased steadily during the Track Record Period. While we collect information from our membership system and IT system on the utilisation and performance of our machines in order to aid our machine procurement strategy, we cannot assure you that the machines we procure and install at our pachinko halls will be well-received by our customers. We also cannot assure you that the manufacturers from whom we source our new machines will receive the requisite regulatory approvals for private brand machines we develop and purchase. In addition, we cannot assure you that we will be able to accurately anticipate changes in player preferences, industry trends or general changes in customer behaviour or preferences, such as a redirection of leisure spending to other types of leisure and entertainment activities. These factors individually or collectively could result in the reduced utilisation of, and a corresponding decrease in revenue generated from, our machines. If our machine procurement strategy fails to attract and retain customers, our business, results of operations and financial condition may be adversely affected.

**The inherent element of chance may affect payout ratios in spite of our adherence to pachinko industry regulations and practice**

Although the Amusement Business Law sets certain limits on the payout ratios of pachinko and pachislot machines, pachinko and pachislot games are characterised by an inherent element of chance that is beyond our control. Further, results of play are also affected by other factors, including players' skill and experience, the mix of games played, the financial resources of players and the amount of time players spend on playing pachinko and pachislot games. These factors, alone or in combination, have the potential to adversely impact our payout ratios, which may materially and adversely affect our business, results of operations and financial condition.

**The appraised values of our selected properties in Japan may be different from their actual realisable values and are subject to variation, and if the actual realisable values of such properties are substantially lower than their appraised value, there may be a material adverse effect on our business, results of operations and financial condition**

Our Property Valuer, has valued selected properties in Japan in which our Group has interests as at 31 January 2015. See "Appendix III – Valuation Report on Selected Property Interests" for the full text of their letter, summary of valuation and valuation certificates with regard to such property interests.

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The appraised values of such selected properties are based on various assumptions. The key assumptions include (among others): (1) transferable land use rights of the properties for their respective terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid; (2) information and advice given by the Group regarding the title to each of the properties and the interests of the Group in the properties; and (3) the Group has an enforceable title to each of the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted.

If any of such assumptions prove to be inaccurate, the appraised values of these properties may be materially affected. Accordingly, these appraised values may differ materially from the price we could receive in an actual sale of the property in the market, and should not be taken as their actual realisable value or a forecast of their realisable value. Unforeseeable changes to regional economic conditions, may also affect the value of our properties. If the actual realisable value of our property is substantially lower than its appraised value, it may have a material adverse effect on our business, results of operations and financial condition.

### **We recorded net current liabilities at times during the Track Record Period**

We recorded net current liabilities of ¥1,164 million and ¥877 million as at 31 March 2012 and 2013, respectively. Such net current liabilities primarily reflected: (i) payables for the current portion of our obligations under finance leases from long terms leases of properties for our pachinko and pachislot hall operations; and (ii) our short-term borrowings and the current portion of our long-term borrowings, primarily to fund our construction and acquisition of pachinko halls, and to a lesser extent our working capital. As at 30 September 2014, we had net current assets of ¥2,416 million.

### **Our insurance coverage may not be adequate to cover all possible losses. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future**

We maintain fire insurance for our pachinko halls and operating properties from fire damage. We also maintain movable property insurance, which insures our movable property (such as general prizes and G-prizes) from theft and burglary, and public liability insurance for third party physical injuries and property damage, and labour and health insurance for our full-time employees. Each policy contains certain customary exclusions. In addition, certain events such as nuclear events, labour strikes, acts of war or terrorism, and epidemic outbreaks are excluded from coverage by these insurance policies. We do not carry business interruption insurance resulting from natural disasters such as droughts, floods, earthquakes or severe weather conditions, any suspension or cessation in the supply of utilities and other calamities. Therefore, certain acts and events could expose us to substantial uninsured losses. We may suffer business disruption as a result of these events or be subject to claims by third parties who were injured or harmed. Our insurance may not continue to be available on commercially reasonable terms

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and, in any event, may not be adequate to cover all losses. If we incur losses or damages for amounts exceeding the limits of our insurance coverage, or for claims outside the scope of our insurance coverage, our business, financial condition and results of operations could be materially and adversely affected.

Moreover, we may be unable to renew or replace our existing insurance policies when they expire on commercially reasonable terms, or at all, which could result in substantially higher insurance costs, a reduction of our policy limits, certain exclusions from our coverage, an increase of our deductibles, and/or a significant increase of our risk of loss or damage due to uninsured events. In addition, any failure to renew or replace an insurance policy that may be required under our various credit and other material agreements may affect our ability to operate. Failure to satisfy these requirements could result in an event of default under these credit or other material agreements and have a material adverse effect on our business, financial condition, results of operations and prospects.

### **Our use of derivatives to manage and reduce financing risks may adversely affect our financial condition and results of operations**

We utilise derivative instruments to reduce the risk in interest payable in financing by changing floating rates to fixed rates for our long-term loans payable. However, we may not be able to successfully manage our risk through the use of derivatives. For example, we have entered into interest rate swap contracts to manage these risks with various counterparties, but, due to reasons out of our control, our counterparties may fail to honour the terms of their derivatives contracts with us, and we may be exposed to additional risks. Alternatively, our ability to enter into derivative transactions may be adversely affected if our credit ratings are downgraded. Ineffective management of our derivatives contracts or an inability to enter into new, and maintain existing, derivatives contracts to reduce our financing risks may adversely affect our financial condition and results of operations.

### **Our Controlling Shareholders have the ability to exercise substantial influence or control over us, which allows them to influence or control our business in ways that might not be in the interests of other Shareholders**

Upon completion of the Global Offering, the Taniguchi Consortium will own a total of approximately 69.5% of our total number of issued Shares. Members of the Taniguchi Consortium are associates of each other under the Listing Rules, and persons acting in concert with each other within the meanings under the Takeovers Code. As a result, for the foreseeable future, through their voting control, the Taniguchi Consortium will be able to exercise substantial influence over our operations and business strategy, such as matters related to the composition of our Board of Directors, selection of our senior management, our overall strategic and investment decisions, issue of securities and adjustment to our capital structure, amendments to our Articles, and other corporate actions requiring approval of our Shareholders, including a merger, consolidation or sale of our assets, or any other change of control event that may benefit our other Shareholders generally. Many of these actions are permitted to be taken without the approval of our Independent Non-executive Directors or other Shareholders. Such voting control may discourage certain types of transactions, including those involving an actual or potential



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change of control. To the extent permitted under the Listing Rules and all applicable laws and regulations the Taniguchi Consortium may exercise control over us in ways that conflict with the interests of our other Shareholders, and you as a minority Shareholder could be disadvantaged.

### **From time to time, we may be involved in legal disputes or proceedings**

We may at times be involved in potential legal disputes or proceedings during the ordinary course of business operations relating to, among other things, employees' claim, labour disputes or contract disputes, that could have a material and adverse effect on our reputation, operation and financial condition. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management's attention. We may also have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavourable decisions that result in penalties being imposed on us. In such cases, our business, results of operations and financial condition could be materially and adversely affected.

### **RISKS RELATING TO THE PACHINKO INDUSTRY**

#### **We face intense competition in Japan**

The pachinko industry in Japan is highly competitive. As at 31 December 2013, there were over 3,800 pachinko hall operators throughout Japan, according to EBI, and we owned 54 pachinko halls out of a total of approximately 11,893 halls in Japan. In 2013, due to the fragmented nature of the pachinko industry, our market share based on total gross pay-ins was 1.3%, while our market share based on the total number of halls in Japan was 0.5%. Some of our competitors may have been in business longer than we have and may have substantially greater financial, research and development, marketing and other resources, or even greater experience or brand recognition.

Our major competitors are large pachinko operators, who have extensive experience and an established presence in the pachinko business as well as the capital resources to implement expansion plans. They may have greater access to financial, marketing or management resources than we do, have greater brand recognition or provide a different array of pachinko and other games. We cannot assure you that our development strategies for our pachinko halls will enable us to successfully compete with those of our competitors. It is also possible that there will be consolidation in the pachinko industry among our competitors, or alliances may develop among competitors that may rapidly acquire significant market share.

We also face competition from other types of entertainment and gaming activities (especially in urban areas), such as web-based gaming, and potentially interactive gaming channels. For example, social networking websites in Japan such as Mixi, and mobile phone gaming applications such as Mobage, have introduced alternative gaming platforms which may compete with our pachinko gaming business. In particular, the Diet was previously examining a bill legalising the operations of casinos in Japan in 2014, though, as advised by our Japan Legal Adviser, this bill has since been discarded and there is no longer any formal legislative procedure to consider the legalisation of casino operations in Japan. In any case, if casino operations are



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eventually legalised, this means we may also face competition from casinos and other gaming venues. If our current or target customers choose to participate in these activities rather than our pachinko games, our operations and revenue from pachinko and pachislot hall operations would be negatively impacted.

If we cannot effectively compete with our current or potential competitors, our business, results of operations, financial condition and prospects may be materially and adversely affected.

### **There could be a change in regulatory or governmental policies (or their interpretations) that affect the pachinko industry**

The pachinko industry is subject to multiple Japan laws, regulations and prefectural ordinances. For example, under the Amusement Business Law, pachinko hall operators must, prior to establishing each pachinko hall, obtain an operating licence from the Public Safety Commission of the relevant prefecture. The Public Safety Commission has the authority to impose conditions on the license, or even cancel the license or suspend operations, for example if the pachinko hall operator violates the Amusement Business Law or other applicable laws and regulations. The Amusement Business Law and its enforcement regulations also regulate many other aspects of pachinko hall operations, such as the maximum value of balls or tokens that may be put into play per minute, payout ratios of machines and advertising.

There is limited precedent interpreting and applying the Amusement Business Law and its enforcement regulations for pachinko operations. An administrative body may issue new or modified regulations, or a court or administrative or regulatory body may render a new interpretation of current laws and regulations, which may require us to significantly change the ways in which we operate or impose additional obligations on us as a pachinko hall operator. For example, a regulation was adopted in 2004 with the aim of de-emphasising the gambling nature of pachislot games, setting a cap on the potential payout value of bonus rounds that could be accumulated during the course of play. This regulation resulted in a sharp drop in the popularity of pachislot, which adversely impacted the operating results of pachinko operators across the industry, including us. See “Financial Information — Significant Factors Affecting Our Results of Operations and Financial Conditions — Factors Affecting Results of Operations — Policies and Regulations Relating to the Pachinko Industry”. In addition, according to EBI, there have been discussions about the introduction of a pachinko tax, although no legislative process has taken places yet. If such additional tax is indeed imposed, the pachinko industry as a whole may be negatively impacted. Further, our business, result of operations, financial condition and prospects may be adversely affected.

Any future regulatory changes could be difficult to comply with, limit our ability to expand our business, or increase the time, cost and other resources required to maintain compliance, any of which could materially and adversely affect our business, result of operations, financial condition and prospects.

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### **There are legal uncertainties with respect to the operation of our business under the Three Party System**

Gambling is a criminal offence under the Penal Code. Further, the Amusement Business Law and other local regulations prohibit pachinko hall operators from being involved in the exchange of prizes by customers, whether directly or indirectly, for cash or securities. In order to ensure compliance with such laws and regulations, the pachinko industry has developed the “Three Party System”, which is an industry practice for the sale and purchase of G-prizes exchanged by a customer playing at a hall. The parties under the Three Party System include: (1) pachinko hall operators (such as ourselves); (2) G-prize buyers; and (3) G-prize wholesalers. See “Business – Pachinko and Pachislot Hall Operations – Three Party System” and “Applicable Laws and Regulations” for more details.

Various courts of Japan (including the Supreme Court (最高裁判所)) and the National Police Agency have made rulings or interpretations in relation to the legality of the Three Party System. Our Japan Legal Adviser has also advised us in this regard. See “Applicable Laws and Regulations – C. Legality of Pachinko Businesses and the Three Party System” for details. That being said, there is still currently no law that explicitly or directly confirms the legality of the Three Party System. We cannot assure you that the Three Party System will not, in the future, be deemed to violate the Amusement Business Law or that pachinko and pachislot games will not be deemed to constitute a “gambling” offence under the Penal Code. Any such determination would materially and adversely affect our business, results of operations, financial condition and prospects.

### **The pachinko industry has been experiencing a downward trend in market size and, compounded by an ageing customer base, may have an adverse effect on our business and results of operations**

According to EBI, the pachinko industry has been experiencing a downward trend in market size. This was since the early 2000’s, due in part to the introduction of legislation de-emphasising the gaming nature of pachislot machines by reducing the size of jackpots and in part to the competition from other forms of entertainment such as video games and the internet which are readily available on their mobile phones. Players that are attracted to the chance element of the game (to win a larger amount of prizes) may seek other forms of gaming while players that are more attracted to the entertainment aspect of the game remain. As a result, the pachinko industry is expected to continue to experience a downward trend from 2014 to 2018 with total gross pay-ins declining from approximately ¥17.3 trillion in 2014 to approximately ¥16.1 trillion in 2018.

The downward trend in market size is also compounded by the ageing population in Japan. The age demographic in Japan is such that the younger spectrum of the population is gradually decreasing while the older spectrum of the population is gradually increasing. According to EBI, it is not likely for players to begin playing pachinko and pachislot in their 30’s or above and approximately 90% of players begin playing pachinko and pachislot in their 20’s. If the pachinko

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industry is unable to attract players in their 20's, the customer base of the pachinko industry may be reduced over time and the industry may lose competitiveness to other entertainment industries. In 2013, the majority of players were from the age group of 30's and above 60's, representing 22.5% and 29.6% of the entire pachinko and pachislot player population, respectively. The ageing population in Japan may hinder the growth of our business in the long run, as a slower growth in the population of the ten prefectures where we operate our pachinko halls means that there will be less potential customers. As such, failure to attract the younger generation to play pachinko and pachislot together with an ageing customer base may result in a decline in the demand of pachinko and pachislot. See "Industry Overview — The Pachinko Industry in Japan — Key Trends of the Pachinko Industry in Japan" for details. An overall reduction in the size of the pachinko industry and the ageing population in Japan may have an adverse effect on our business, results of operations and financial condition.

### **RISKS RELATING TO THE GLOBAL OFFERING**

#### **If we fail to comply with the applicable laws of Japan or the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong), the Stock Exchange may suspend the dealings in our Shares or cancel our Listing**

The Stock Exchange issued a Guidance Letter HKEx-GL71-14 titled "Gambling Activities Undertaken by Listing Applicants and/or Listed Issuers" in January 2014, which applies to the operation of gambling activities by listed companies. Our Japan Legal Adviser has confirmed that our pachinko operations do not constitute "gambling" under, and do not violate, the Penal Code. See "Applicable Laws and Regulations". Nevertheless, if the Stock Exchange still deems our operations to be gambling activities, pursuant to Guidance Letter HKEx-GL71-14, if our pachinko operations (i) fail to comply with the applicable laws in the areas where such activities operate (namely, Japan), and/or (ii) contravene the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong), we or our business may be considered unsuitable for listing under Rule 8.04 of the Listing Rules. Depending on the circumstances of the case, the Stock Exchange may require us to take remedial actions, and/or may suspend the dealings in, or may cancel the listing of, our Shares pursuant to Rule 6.01 of the Listing Rules.

#### **There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained**

Prior to the Global Offering, there was no public market for our Shares. Following the completion of the Global Offering, the Stock Exchange will be the only market on which the Shares are publicly traded. While we have applied to list and deal in our Shares on the Stock Exchange, we cannot predict the extent to which investor interest in our Company will lead to the development of a trading market on the Stock Exchange or otherwise or how active and liquid that market may become. If an active and liquid trading market does not materialise, you may have difficulty selling any of our Shares that you purchase. The Offer Price of the Offer Shares was the result of negotiations between us and the Sole Global Coordinator (on behalf of the

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Underwriters), and it may not necessarily be indicative of the market price of our Shares after the Global Offering is complete. An investor who purchases Shares in the Global Offering may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares.

### **The market price and trading volume for our Shares may be volatile**

The price and trading volume of our Shares may be highly volatile. Factors such as global and local economic conditions, the foreign currency exchange rate between the Japanese Yen and the Hong Kong dollar, variations in our operating results, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade. We cannot assure you that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange have experienced substantial price volatility in the past, and it is possible that our Shares will be subject to changes in price that may not be directly related to our financial or business performance. As a result, investors in our Shares may experience volatility in the market price of our Shares and a decrease in the value of our Shares regardless of our operating performance or prospects.

### **Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall when the trading of our Offer Shares begins**

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be about five business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price or value of our Shares could fall when trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

### **Your interest may be diluted as a result of additional equity fund-raising**

We may need to raise additional funds in the future to finance further expansion of, or new developments relating to, our existing operations. If additional funds are raised through the issue of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced, thereby resulting in dilution. Furthermore, such newly issued securities may confer rights, preferences or privileges superior to those of the existing Shares.

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### **Substantial future sales or speculated sales of our Shares in the public market could cause the price of our Shares to decline**

Sales of our Shares in the public market after the Global Offering, or speculation that these sales could occur, could cause the market price of our Shares to decline. Upon completion of this Global Offering, we will have 1,195,850,460 Shares outstanding, or 1,240,850,460 Shares outstanding if the Underwriters exercise their Over-allotment Option. Certain holders of our Shares will be able to sell their Shares upon the expiration of certain lock-up periods. See “Underwriting” for details. We cannot predict what effect, if any, market sales of securities held by our significant Shareholders or any other Shareholders or the availability of these securities for future sale will have on the market price of our Shares.

### **The final Offer Price of our Shares may be higher than our net tangible asset value per Share, and if so purchasers of our Shares in the Global Offering will experience immediate dilution**

If you purchase our Shares in the Global Offering, depending on the final Offer Price, you may pay more for your Shares than our net asset value on a per Share basis. As a result, investors of our Shares in the Global Offering may experience an immediate dilution in the net tangible asset value and our existing Shareholders may receive an increase in the pro forma adjusted combined net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience a further dilution of their interest if we issued additional Shares in the future, including pursuant to an exercise of the Over-allotment Option.

We may need to raise additional funds in the future to finance further expansion or new developments relating to our existing operations. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

### **Dividends paid in the past should not be treated as indicative of future dividend payments or our future dividend policy**

During the Track Record Period we declared and paid dividends in the amount of ¥110 million, ¥110 million, ¥183 million and ¥183 million for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014, respectively. Purchasers of the Offer Shares in the Global Offering will not be entitled to these dividends. These dividends were financed by our internal resources. Future dividends on our Shares will be declared by, and are subject to the sole and absolute discretion of, our Board of Directors in accordance with our Articles of Incorporation (subject to financial covenants and other restrictions that may exist with respect to financing arrangements or other agreements we may enter into). The payment and the amount of any dividends will depend on our earnings, financial condition, results of operations, cash flows, statutory and regulatory restrictions on the payment of dividends by us, future

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prospects and other factors that our Directors may consider relevant. We cannot assure you that future dividends will be declared or paid in an amount equivalent to or exceeding historical dividends. Therefore, you should be aware that historical dividends are not indicative of the amount or frequency of future dividends or our future dividend policy.

For a discussion of our dividend policy, see “Financial Information — Dividend Policy”.

### **We are a holding company and our ability to pay dividends is dependent upon the earnings of, and distributions by, our subsidiaries**

We are a holding company incorporated under the laws of Japan. All of our business operations are conducted through our subsidiaries, and we are dependent upon our subsidiaries for all of our cash flow. Our ability to pay dividends is dependent upon the earnings of our subsidiaries and their distributions of funds to us, primarily in the form of dividends. The ability of our subsidiaries to make distributions to us depends upon, among other things, their distributable earnings and their ability to service their debt obligations. Under Japan law and our Articles, payment of dividends is permitted by our Board’s resolution within the Distributable Amount calculated under the Japan Companies Act. Subject to any applicable tax treaties, dividends payable to our Shareholders are subject to a withholding tax of up to 20.420%. Dividends paid by our subsidiaries are subject to a withholding tax in Japan of 20.420%, which can be offset against the corporate tax payable by our Company. In case the amount of corporate tax payable by our Company is lower than such withholding tax, the shortfall will be refundable. We have been advised that as at the Latest Practicable Date, there was no withholding tax for dividends in Hong Kong. Other factors such as cash flow conditions, restrictions on distributions contained in our subsidiaries’ articles of incorporation, restrictions contained in their debt instruments, withholding tax and other arrangements will also affect our subsidiaries’ ability to make distributions to us. These restrictions could reduce the amount of distributions that we receive from our subsidiaries, which in turn would restrict our ability to fund our operations and pay dividends on the Offer Shares.

### **Fluctuations in exchange rates could affect the actual amounts of dividends paid to our Shareholders**

All Shareholders other than CCASS Beneficial Owners have the option of receiving dividends in either Japanese Yen or Hong Kong dollars. Because we currently generate all our revenue in Japan, the cash dividends on our Shares, if any, will be declared in Japanese Yen, but may be paid in Hong Kong dollars to our CCASS Beneficial Owners and our Shareholders who elect to receive dividends in Hong Kong dollars. Our CCASS Beneficial Owners may only receive dividends in Hong Kong dollars. Any significant devaluation of the Japanese Yen may materially and adversely affect the value of, and any dividends payable on, our Shares in Hong Kong dollars. For example, a depreciation of the Japanese Yen against the Hong Kong dollar may reduce the Hong Kong dollar equivalent of our dividends.

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**Certain statistics, projected industry data and other information relating to the economy and the pachinko industry in Japan contained in this Prospectus are derived from third party market research reports or news sources and may not be reliable**

Statistics, projected industry data and other information relating to the economy and the industry contained in this Prospectus have been derived from various publications with information provided by a Japanese third party market research company. We cannot assure you, or make any representation, as to the accuracy, completeness, quality or reliability of such information. Neither we nor any of our respective affiliates or advisors, nor the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager or any of their respective affiliates or advisors, have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from the third party market research report. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, projected industry data and other information relating to the economy and the industry derived from the third party market research report may be inaccurate or may not be comparable to or consistent with information available from other sources and should not be unduly relied upon. In all cases, you should give careful consideration as to how much weight or importance you should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

**Forward-looking statements contained in this Prospectus are subject to risks and uncertainties**

This prospectus contains certain statements that are “forward-looking” and uses forward looking terminology such as “anticipate”, “estimate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would”, and “will”. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this Prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information. See “Forward-looking Statements”.

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**You should read the entire Prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any financial projections, valuations or other forward looking information**

There has been media coverage in certain news publications regarding us and the Global Offering which includes certain projections, valuations and other forward looking information that are not directly attributable to statements made by us. We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of any press articles or other media and that such press articles or other media were not prepared or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward looking information, or of any assumptions underlying such projections, valuations or other forward looking information, included in or referred to by the media. To the extent that any such statements are inconsistent, or conflict, with the information contained in this Prospectus, we disclaim them. Accordingly, prospective investors should not rely on any such information contained in press articles or other media. Potential investors making a decision as to whether to apply for Shares should rely solely on the information contained in this Prospectus and the Application Forms and not place any reliance on any other information.



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*Our Company is a stock company\* (株式会社) incorporated under the Japan Companies Act and our entire business operation is conducted in Japan. We are therefore subject to the Japan Companies Act and other applicable laws and regulations in Japan. The legal and regulatory regime in Hong Kong differs in certain material aspects from that in Japan. Set out below is a summary of certain provisions under our Articles, the Japan Companies Act and other relevant legislations, regulations, rules and policies in Japan that we consider may be material to our Shareholders and potential investors. As the information contained below is in summary form, it does not contain all of the information that may be important to you as potential investors. **If you are in any doubt about any content of this section or information contained in this Prospectus in general, you should obtain independent professional advice.***

### A. BEARER SHARES

Under Japan law, our Shares are “*bearer shares*” in nature. A bearer, or a physical holder, of a share certificate issued by our Company is recognised as the owner of the Shares represented by it. Ownership of our Shares can be transferred simply by the delivery of our share certificates, with or without the transferor and the transferee having signed any document evidencing such transfer. This creates inherent risks for Shareholders and potential investors who choose to hold our Shares by physical possession of share certificates.

Set out below is a summary of certain aspects of Japan law provisions relevant to the ownership and transfer of our “*bearer shares*”, the risks associated with these provisions and our recommended measures for our Shareholders and potential investors to mitigate these risks.

#### **Ownership and title**

Under the Japan Companies Act, if a company states in its articles of incorporation\* (定款) that physical share certificates must be issued for its shares, its shares are “*bearer shares*”. Our Articles provide that our Company must issue physical share certificates for our Shares, and our Shares are as such “*bearer shares*” in nature. Japan law provisions regarding the ownership of, and the title to, our *bearer* Shares are significantly different from those under the laws of Hong Kong and other common law jurisdictions.

#### **General provisions under Japan law**

With respect to a company with “*bearer shares*”, Japan law generally recognises a bearer, or a physical holder, of a share certificate as the owner of the shares represented by such share certificate, regardless of whether the name of that bearer appears on such share certificate. It is generally recognised under Japan law for the ownership of the shares of a Japan company to be transferred simply by the delivery of share certificates, with or without the transferor and the transferee having signed any document evidencing such transfer. Bearers, or physical holders of share certificates are presumed under Japan law to have legal rights over the shares represented by such certificates.

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Notwithstanding these Japan law provisions, it is provided under our Articles and the Japan Companies Act that title to our Shares shall not be perfected against our Company until and unless a person's name and address are recorded in our Share Register. Under article 130 of the Japan Companies Act, a company is not obliged to treat anyone as a shareholder unless and until he/she is registered as a shareholder on its share register. As an enhanced measure of Shareholders' protection, our Articles provide that our Company shall not associate any Shareholder's right (such as voting rights and rights to receive dividends) with any person unless his/her name appears on our Share Register in reliance on the above provision under the Japan Companies Act. Our Japan Legal Adviser has confirmed that the aforementioned Articles provisions are in compliance with all relevant Japan law.

Our Company is required under Japan law to register bearers, or physical holders of our share certificates as a Shareholder in our Share Register without any onerous condition unless we have *reasonable grounds* not to do so.

Failure to register interests in our Shares in our Share Register could result in the misappropriation or loss of a Shareholder's rights. In particular, under Japan law, our Company does not have the right to take action on a Shareholder's failure to disclose his/her interests to our Company. Hence, potential investors are strongly cautioned to register your interests in our Shares in our Share Register after you have properly acquired title in our Shares, following the procedures set out in "— Transfer of Shares" in this section below.

### ***Risks associated with bearer shares***

Our "*bearer shares*" create inherent risks for our Shareholders and potential investors who choose to hold our Shares by physical possession of our share certificates. These risks include:

- (i) *lost or destroyed share certificates* - Shareholders and potential investors might lose the ownership and value of our Shares represented by a share certificate if it is lost or destroyed;
- (ii) *unauthorised third party acquiring the Shares* - an unauthorised third party coming into possession of a lost share certificate might seek to be recognised as a Shareholder, thereby acquiring the ownership and value of the Shares represented by the lost share certificate and the rights attached to those Shares; and
- (iii) *non-transferability* - Shareholders and potential investors who have reported a lost or destroyed share certificate to our Company will not be able to register a transfer of the Shares represented by the lost or destroyed share certificate or otherwise deposit such Shares into CCASS for trading on the Stock Exchange during a mandatory one-year waiting period prescribed under Japan law.

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See “— A. Bearer Shares — Lost / destroyed share certificates” in this section below for details of the consequences for our Shareholders and potential investors if their share certificates are lost or destroyed. Potential investors may also refer to “*Understanding the Risks of Investing in Overseas Issuers*” in the Stock Exchange’s website, “*Investor Relations — Key Japan Legal and Regulatory Matters*” in our Company’s website, or the circulars despatched by HKSCC to the CCASS Participants from time to time.

To mitigate the risks associated with our “*bearer shares*”, we recommend a number of measures for our Shareholders and potential investors and have adopted certain voluntary measures, both of which are set out below.

### ***Recommended measures for our Shareholders and potential investors***

1. *Holding your investments through CCASS* - CCASS Beneficial Owners, who are investors of our Company holding their underlying interests in our Shares through CCASS, are not exposed to the risks associated with our “*bearer shares*” as they do not physically possess our share certificates. Interests of CCASS Beneficial Owners are essentially held and traded in scripless, or paperless, form within CCASS. To become a CCASS Beneficial Owners, apply for the Hong Kong Offer Shares by completing the **YELLOW** Application Forms or giving electronic instructions to HKSCC. See “How to Apply for Hong Kong Offer Shares” for details.

Due to certain Japan legal and regulatory provisions, CCASS Beneficial Owners are subject to the following disadvantages:

- (i) ***Withholding tax***: CCASS Beneficial Owners are subject to an initial withholding tax rate of 20.420% on dividend payments as our Company is unable to ascertain the identity, and consequently the tax residence, of the CCASS Beneficial Owners. This tax rate is, in general, higher than that applicable to Shareholders who hold their investments in our Company by physical possession of share certificates. CCASS Beneficial Owners may apply for a refund of taxes withheld in excess to the National Tax Agency in Japan but there may be delays in obtaining the refund payments. See “— E. Taxation” in this section below for details.
- (ii) ***Currency of dividend payment***: unlike Shareholders who hold their investments in our Company by physical possession of share certificates, CCASS Beneficial Owners do not have the option to elect the currency of their dividend payments. All dividends payable to the CCASS Beneficial Owners will be in Hong Kong Dollars. See “— C. Shareholders’ Rights — Dividends — Currency of Dividend Payments” in this section below for details.

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- (iii) **Shareholders' rights:** CCASS Beneficial Owners are not recognised as a Shareholder under Japan law and are not presumed to be entitled to Shareholders' rights. They rely on HKSCC Nominess to exercise the rights on their behalf in the same way it does for shareholders of other companies listed on the Stock Exchange the shares of which are deposited into CCASS.
- (iv) **Inspection of Share Register:** CCASS Beneficial Owners are not recognised as a Shareholder under Japan law and they may not inspect our Share Register unless allowed to do so under the Personal Information Protection Act. See “— C. Shareholders' Rights — Inspection of our Share Register” for details.
- (v) **Voting on last-minute amendments:** under Japan law, after the convocation notice of a general meeting has been despatched, a Shareholder is permitted to propose last-minute amendment(s) to the matters included in an existing meeting agenda of a general meeting without any prior notice, if a matter of similar nature is included in the original meeting agenda. CCASS Beneficial Owners, who customarily do not attend general meetings in person, may lose the chance to vote on a last-minute amendment at their own will. See “— B. Shareholders' Meetings — Request for last-minute amendment to a meeting agenda” for details.

Despite these disadvantages, given the risks associated with our “*bearer*” Shares (which are very significant in the opinion of our Directors), **it is our Board's strong recommendation that potential investors should hold your investments in our Company through CCASS.**

2. *Surrendering your share certificates* - Shareholders and potential investors who choose to invest outside CCASS and physically possess our share certificates are recommended to surrender their share certificates to our Company. Surrendered share certificates will be cancelled and the risks associated with our “*bearer shares*” will no longer apply. However, before a Shareholder may transfer or trade the Shares represented by a surrendered share certificate or otherwise deposit the Shares into CCASS, they must wait for a period of up to six business days for a new share certificate to be re-issued. See “— A. Bearer Shares — Share certificate surrender” in this section below for details. Successful applicants or partially successful applicants of the Hong Kong Offer Shares wishing to surrender their share certificates should apply through our Hong Kong Share Registrar immediately upon receipt of their share certificates.

Share certificates will be sent to successful or partially successful applicants by registered post. If you do not elect to adopt the recommended measures above, you run the risks associated with our “*bearer shares*” and are highly cautioned to, above all, safe-keep your physical share certificates at all times.

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### Voluntary measures adopted by our Company

We have put in place the following voluntary measures to minimise your exposure to the risks associated with our “*bearer shares*” for our Shareholders other than CCASS Beneficial Owners:

#### 1. *Registration of share transfers*

Upon Listing, our Company will be subject to certain requirements in Hong Kong to register transfers of our Shares and other documents relating to or affecting the title to our Shares. These include paragraph 1(1) of Appendix 3 to the Listing Rules and the Stamp Duty Ordinance. To comply with these requirements, we have amended our Articles to adopt the following internal procedures for share certificates and share transfers:

- (i) our Company will issue share certificates in registered form with the names and addresses of our Shareholders imprinted thereon;
- (ii) any person seeking to have his/her name and address recorded as a Shareholder in our Share Register must present an instrument of transfer and/or a contract note duly stamped pursuant to the Stamp Duty Ordinance and executed by such person (as transferee) and the original holder of the relevant Shares (as transferor) whose name(s) appear on the relevant share certificate and our Share Register (the “*record Shareholder*”);
- (iii) our Company will regard a standard transfer form customarily adopted by listed companies on the Stock Exchange or a transfer form printed at the back of the share certificates as an acceptable instrument of transfer and/or a contract note referred to in paragraph (ii) above;
- (iv) where the transferor or transferee is a clearing house, execution by hand or machine-imprinted signature will be accepted for the purpose of paragraphs (ii) and (iii) above; and
- (v) our Share Register maintained in Hong Kong will be our sole and principal share register.

See “— A. Bearer Shares — Transfer of Shares” in this section below for detailed procedural and documentary requirements. Our Directors have undertaken to the Stock Exchange not to put forward any proposal to our Shareholders which would otherwise revoke these Articles provisions so long as our Shares are listed on the Stock Exchange, unless and until our Company ceases to issue share certificates upon implementation of a scripless, or paperless securities market on the Stock Exchange.

Our Japan Legal Adviser is of the view that the Articles provisions set out above should be permissible under the applicable Japan laws and regulations that are currently in force as at the date of this Prospectus. This is on the basis that (i) we are allowed under Japan law to impose

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documentary and procedural requirements to register a person as a Shareholder in our Share Register if we have *reasonable grounds* to do so; and (ii) our obligations to, as a company listed on the Stock Exchange, comply with paragraph 1(1) to Appendix 3 to the Listing Rules and the Stamp Duty Ordinance would likely be regarded as a *reasonable ground*; and (iii) the Articles provisions set out above are disclosed to our Shareholders and potential investors in this Prospectus.

Notwithstanding the views of our Japan Legal Adviser above, you should note that the Articles provisions set out above have not been tested in a Japan court. It is possible for a bearer, or physical holder, of our share certificate to initiate legal proceedings against these Articles provisions and require a Japan court to recognise him/her as a Shareholder of our Company. We consider that the likelihood of these legal proceedings is remote, as substantially all potential investors are expected to hold their investments in our Company through CCASS as in the case of most companies listed on the Stock Exchange. Nevertheless, we have been advised by our Japan Legal Adviser that our Articles provisions are highly likely to be upheld by a Japan court.

See “Risk Factors – Risks Relating to Key Japan Legal and Regulatory Matters – Our Shares are “bearer shares” in nature and there are significant risks associated with physical possession of Share certificates and “Risk Factors – Risks Relating to Key Japan Legal and Regulatory Matters – Our Articles provisions on the registration of share transfers are not judicially precedented in Japan and may be challenged in court” for the residual risks associated with our “*bearer shares*” despite the internal rules we put in place.

CCASS Beneficial Owners are not subject to the Articles provisions above and may trade, transfer and deal in our Shares electronically under the customary procedures in Hong Kong and arrangements made with their respective securities brokers.

### 2. *Single Share Register maintained in Hong Kong*

To minimise the risks exposed to our Shareholders and potential investors in respect of our “*bearer*” Shares, our Articles provide that our Hong Kong Share Registrar will maintain our Share Register, which will be our sole and principal share register, in Hong Kong upon Listing. All issued Shares of our Company will be registered in our Share Register and subject to the Articles provisions set out in “– A. Bearer Shares – Voluntary Measures adopted by our Company – 1. Registration of Share Transfers” in this section above. This includes any application for registration of share transfer lodged with our headquarters in Japan. See “– A. Bearer Shares – Transfer of Shares” in this section below for details.

Our Japan Legal Adviser has confirmed that there is no provision under Japan law under which our Company is required to appoint a share registrar or transfer agent based in Japan or maintain a share register within the Japanese territory. Our Hong Kong Share Registrar will be responsible for the customary share registrar duties as required under the Listing Rules.

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### 3. *Adoption of scripless securities model*

As a permanent solution to the risks associated with our “bearer shares”, our Company has undertaken to use all reasonable endeavours to, subject to Shareholders’ approval, adopt the scripless, or paperless securities model as soon as all relevant legislations, rules and regulations have been enacted and in place for the implementation of a scripless securities market on the Stock Exchange. Under the scripless securities model currently proposed by the Stock Exchange and the SFC, our Company will cease to issue share certificates and all risks associated with our “bearer shares” will no longer apply.

The relevant legislative changes to implement a scripless securities market on the Stock Exchange have been gazetted and tabled at the Legislative Council of Hong Kong in June 2014.

#### **Transfer of Shares**

Our Articles provide that transfers of our Shares are free from restrictions or limitation and do not require approval from our Board of Directors or Shareholders. Set out below are the procedures and documentary requirements for registering a share transfer in our Share Register.

#### **Shareholders outside CCASS (WHITE Application Form / White Form eIPO applicants under the Hong Kong Public Offering)**

Shareholders who choose to invest outside CCASS may lodge an application for registering a transfer in our Share Register either with our Hong Kong Share Registrar or our Company’s headquarters in Japan, subject to the same documentary requirements:

	<u>Hong Kong Share Registrar</u>	<u>Headquarters in Japan</u>
<b>Address</b> . . . . .	Shops 1712-1716, 17/F Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong	1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan
<b>Office hours</b> . . . . .	9:00 a.m. to 4:30 p.m. (Hong Kong time)	9:00 a.m. to 5:00 p.m. (Japan time)
<b>Processing time</b> . . . .	up to ten business days	ten business days
<b>Documentary requirements</b> . . . . .	Applicants for registration of share transfers are required to produce the following documents, or the relevant application will not be processed: <ul style="list-style-type: none"><li>• share certificates representing the Shares to be transferred; and</li><li>• an acceptable transfer document which must conform to the requirements under the Stamp Duty Ordinance and be an instrument of transfer and/or contract note duly executed by the transferee and the transferor, whose name and address is recorded as the record Shareholder in our Share Register. An acceptable transfer document can be a standard transfer form customarily adopted by companies listed on the Stock Exchange or a transfer form printed at the back of the share certificates.</li></ul>	



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Our Share Registrar will also record the applicant's signature on the relevant transfer document as specimen signature for future verification purpose. Applications made with our headquarters in Japan must be made in person.

It is the responsibility of the applicant to contact the record Shareholder to sign as the transferor on the transfer document before making an application to us. If an applicant cannot locate the record Shareholder to sign on the relevant transfer document, or if the record Shareholder refuses to sign on the same, the relevant application will not be processed. For simultaneous multiple transfers, a separate transfer document is required for each such transfer.

### ***CCASS Beneficial Owners (YELLOW Application Form / electronic applicants via HKSCC under the Hong Kong Public Offering)***

CCASS Beneficial Owners are not subject to the procedures and requirements above and may trade, transfer and deal in our Shares electronically under the customary procedures in Hong Kong and arrangements made with their respective securities brokers.

### **Lost / Destroyed share certificates**

Procedures for replacement of lost or destroyed share certificates adopted by our Company differ from those under the Companies Ordinance in Hong Kong and those adopted by most companies listed on the Stock Exchange.

### ***Consequences of lost / destroyed share certificates***

A Shareholder is exposed to significant risks if he/she loses its share certificate or has it destroyed. He/she may lose the value of our Shares represented by the lost or destroyed share certificate (together with the rights attached to those Shares) and run the risk of an unauthorised third party coming into contact of a lost share certificate and requiring a Japan court to recognise him/her as a Shareholder.

Shareholders are required to report a lost or destroyed share certificate to our Company through our Hong Kong Share Registrar. We are not allowed under Japan law to re-issue a replacement share certificate in lieu of a lost or destroyed share certificate until the expiry of a mandatory one-year waiting period prescribed under Japan law. There is no circumstance under Japan law under which we are able to shorten the one-year waiting period.

During the one-year waiting period, we are required to handle the relevant Shareholders' rights in accordance with the Japan Companies Act as follows:

- (i) the person whose name and address are recorded in our Share Register as the holder of the relevant Shares (i.e. the record Shareholder) will continue to be treated as our Shareholder;
- (ii) dividends, if declared, will be paid to the record Shareholder;



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- (iii) no person may effect a valid registration of a transfer of the relevant Shares or otherwise deposit the Shares into CCASS for trading on the Stock Exchange, subject to the circumstances set out in “— Cancellation of a lost/destroyed share certificate report” below;
- (iv) no other person will be registered as a holder of the relevant Shares in our Share Register;
- (v) a record Shareholder who reports a lost or destroyed share certificate will continue to be entitled to exercise all voting rights attached to the relevant Shares.

Under Japan law, there are limited circumstances whereby a person other than the record Shareholder may report a lost or destroyed share certificate. These include an unregistered owner of our Shares who has lost his/her share certificates prior to registering a valid transfer in our Share Register. In order to report a lost or destroyed share certificate, such unregistered owner must present an acceptable transfer document, which must conform to the requirements under the Stamp Duty Ordinance and be an instrument of transfer and/or contract note duly executed by the transferee and the record Shareholder as the transferor. In that case, no one shall be entitled to exercise the voting rights attached to the relevant Shares during the one-year waiting period. If an unregistered owner fails to present an acceptable transfer document, no report of lost or destroyed share certificate will be accepted and no replacement share certificate will be issued. In that case, an unregistered owner may seek to assert his/her title with a competent court in Japan.

CCASS Beneficial Owners are not subject to the risks associated with the loss or destruction of share certificates, including the one-year waiting period, as they do not physically possess share certificates. You are strongly recommended to hold your investments in our Company through CCASS. Due to certain Japan legal and regulatory provisions, **CCASS Beneficial Owners are subject to certain disadvantages**. See “— A. Bearer Shares — Ownership and Title — Recommended measures for our Shareholders and potential investors” in this section above for details.

### ***Reporting a lost / destroyed share certificate***

We accept reports of lost or destroyed share certificates through our Hong Kong Share Registrar. We do not handle lost or destroyed share certificates at our headquarters in Japan.

### ***Cancellation of a lost / destroyed share certificate report***

If a lost share certificate is recovered, the person who filed the original lost share certificate report shall inform our Hong Kong Share Registrar to release himself/herself from the one-year waiting period.

There are limited circumstances whereby an unauthorised third party might come into possession of a share certificate reported as lost and seek to be recognised as a Shareholder. In that case, we are required under Japan law to terminate the one-year waiting period and a

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replacement share certificate will not be issued to the person who filed the original lost share certificate report. We consider that these circumstances are very rare in practice as substantially all of our potential investors are expected to hold their investments in our Company through CCASS, as in the case of most companies listed on the Stock Exchange.

It is a provision under our Articles that no one shall be registered as a Shareholder in our Share Register unless an acceptable transfer document (which must conform to the requirements under the Stamp Duty Ordinance and be an instrument of transfer and/or contract note duly executed by the transferee and the record Shareholder as the transferor) is presented to us. As such, an unauthorised bearer of a share certificate reported as lost will not be recognised as a Shareholder in our Share Register unless he/she is able to present an acceptable transfer document. In that case, an unauthorised bearer may seek to assert his/her title with a competent court in Japan if he/she believes that he/she has genuine and valid title to the relevant Shares.

Once we become aware that an unauthorised bearer of a share certificate reported as lost is seeking to be recognised as a Shareholder, we will notify the record Shareholders through our Hong Kong Share Registrar by writing to his/her registered address recorded in our Share Register. Record Shareholders may assert his/her title with a competent court in Japan. It is therefore important to update your contact details with our Hong Kong Share Registrar from time to time.

### **Share certificate surrender**

Shareholders and potential investors who choose to invest outside CCASS are encouraged to surrender their share certificates to us. Surrendered share certificates will be cancelled and the risks associated with our “*bearer shares*” will no longer apply.

### ***Implications of share certificate surrender***

Surrendered share certificates will be cancelled, void and destroyed and our Share Register will indicate that no share certificate exists in respect of the Shares represented by them. As such, the risks associated with our “*bearer shares*”, including the risks associated with a lost or destroyed share certificate, will no longer apply.

However, you should note that our Hong Kong Share Registrar may take up to six business days to re-issue a new share certificate in lieu of a surrendered share certificate. During the waiting period of up to six business days, the relevant Shares may not be transferred or otherwise deposited into CCASS for trading on the Stock Exchange. This will in particular affect Shareholders and potential investors who seek to trade the Shares on a “*T+2*” basis, whereby dealings in Shares on the Stock Exchange customarily take place two business days prior to settlement. The waiting period of up to six business days may lead to settlement failure. It is the responsibility of individual Shareholder to carefully formulate their investment schedule, taking into account the waiting period of up to six business days to avoid settlement failure.

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See “Risk Factors — Risks Relating to Key Japan Legal and Regulatory Matters — Surrendered Share certificates can only be re-issued after a waiting period of up to six business days, which could result in settlement failures” for details.

Our Directors have been advised that the waiting period of up to six business days does not contravene the provisions under Rules 13.59 and 13.60(1) of the Listing Rules.

### ***Surrendering your share certificates***

We accept applications for surrendering a share certificate through our Hong Kong Share Registrar. We do not handle share certificate surrenders at our headquarters in Japan.

Any record Shareholder whose name and address appears on our Share Register is entitled to surrender their share certificates to us. To apply, he/she must bring along (i) the share certificates he/she is seeking to surrender; (ii) identity proof; (iii) a completed and duly signed share certificate surrender form; (iv) specimen signature of such Shareholder (in case of individual Shareholders) or authorised corporate representative (in case of corporate Shareholders) to our Hong Kong Share Registrar. Surrendered share certificates will be acknowledged by a written receipt. Shareholders wishing to check or verify the record of their shareholdings in respect of their surrendered share certificates may request to inspect and/or print a copy of our Share Register in accordance with the requirements and procedures set out in “— C. Shareholders’ Rights — Inspection of our Share Register” in this section below.

Successful applicants or partially successful applicants of the Hong Kong Offer Shares wishing to surrender their share certificates should apply through our Hong Kong Share Registrar immediately upon receipt of their share certificates. Share certificates will be despatched by registered post, at the applicants’ own risks.

### ***Re-issuing a new share certificate in lieu of a surrendered share certificate***

A new share certificate can be re-issued in lieu of a surrendered share certificates by applying to our Hong Kong Share Registrar. To apply, a Shareholder must bring along (i) identity proof; and (ii) a completed and duly signed share certificate re-issuance form, the signature(s) on which must match the ones on the share certificate surrender form, to our Hong Kong Share Registrar.

## **B. SHAREHOLDERS’ MEETINGS**

Set out below are the Japan law provisions with respect to matters relating to the convocation of and voting in our general meetings which in our opinion are relevant to our Shareholders and potential investors and materially differ from the conventional requirements applicable to other companies listed on the Stock Exchange.

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### **Record date**

Our AGM is usually held in June every year. Our Articles provide that our Board of Directors may from time to time designate a record date for our AGMs and extraordinary general meetings. A record date is the date for determining the list of eligible Shareholders entitled to vote in our AGMs and extraordinary general meetings. We may also set the same or a different record date to determine the eligibility of our Shareholders to receive dividends and/or other distributions.

### **AGMs**

Under the Japan Companies Act, an AGM must be held within three months from the record date. Upon Listing, we plan to set our (i) record date for attendance and voting at our AGM shortly before the despatch date of our AGM convocation notice; and (ii) record date for final dividend entitlement shortly after the announcement of any final dividend declared. To comply with the requirements under the Japan Companies Act and Rule 13.66(1) of the Listing Rules, a record date in relation to our AGMs and final dividend, if any, will be announced by public notice in Japan, which will be replicated on the Stock Exchange's website and our Company's website in English and Chinese, at least 14 days prior to the proposed record date.

Our Directors have been advised that Rule 13.66(2) of the Listing Rules does not apply to us as our dividend payments (annual, interim or other) are not subject to Shareholders' approval under our Articles.

### ***Extraordinary general meetings***

Our Board of Directors may under the Japan Companies Act set a record date of an extraordinary general meeting. To comply with the requirements under the Japan Companies Act, a record date in relation to our extraordinary general meetings will be announced by public notice in Japan, which will be replicated on the Stock Exchange's website and our Company's website in English and Chinese, at least 14 days prior to the proposed record date.

### ***Interim and other dividend payments***

Upon Listing, we plan to set our record date for interim or other dividend entitlement shortly after the announcement of any interim or other dividend declared. To comply with the requirements under the Japan Companies Act and Rule 13.66(1) of the Listing Rules, a record date in relation to our interim or other dividend, if any, will be announced by public notice in Japan, which will be replicated on the Stock Exchange's website and our Company's website in English and Chinese, at least 14 days prior to the proposed record date.

Shareholders who acquire our Shares after the record date will not be entitled to vote in our general meetings and/or receive dividend payment, if any.

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### Notice and distribution of annual report and accounts

Under Japan law and our Articles, we are required to convene our AGM within three months after the day following 31 March, which is the last day of each financial year. Under our Articles and the Listing Rules, we are required to despatch the convocation notice of our AGM at least 21 days prior to the date thereof. Upon Listing, we will, as required under the Listing Rules and the Japan Companies Act, prepare and despatch the following documents together with our AGM convocation notice:

- (a) a business report\* (事業報告), which would include overview of our key business status, such as, the progress and results of the business, capital expenditures and fund-raising, trends in assets and profit/loss in the most recent three financial years, corporate reorganisations, status of major subsidiaries, shares outstanding and major shareholders, SARs, operation systems, and a status update of other important aspects of our business. Our business report\* (事業報告) will be prepared in Japanese, English and Chinese upon Listing;
- (b) an audited financial report, which would include material annual financial information such as the auditor's report and opinion, the consolidated statement of income, consolidated balance sheet, consolidated statement of changes in net assets, and notes to the consolidated financial statements, and the same for the statements of our Company and of our Group on a consolidated basis, respectively. Our audited financial report will be prepared in accordance with the JGAAP as required under the Japan Companies Act in Japanese, English and Chinese; and
- (c) either (i) an annual report including our Group's annual accounts, which will be in compliance with the contents requirements under Appendix 16 to the Listing Rules; or (ii) a summary financial report, which will be in compliance with the contents requirements under Rule 13.46(2)(a) of the Listing Rules. Our annual report or summary financial report, as the case may be, will be prepared in accordance with the IFRS.

All documents above will be approved and authorised by our Board of Directors before they are despatched to our Shareholders.

### Proxies and corporate representatives

Our Articles provide that any Shareholder who is entitled to attend and vote in a general meeting of our Company may appoint another person as his/her proxy to attend and vote on his/her behalf. Corporate Shareholders may appoint corporate representatives to attend or vote on its behalf. A Shareholder (including nominee companies such as HKSCC Nominees) who is the holder of two or more Shares may appoint multiple proxies or corporate representatives to represent him/her and vote on his/her behalf in a general meeting of our Company. A proxy or corporate representative needs not be a Shareholder of our Company and there is no limitation

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or restriction on the qualification and identity of the proxies and/or corporate representatives to be appointed by our Shareholders. A proxy or corporate representative is entitled to exercise the same powers as if he/she was the Shareholder himself/herself provided that he/she can present a duly signed authorisation document proving his/her authority.

Upon Listing, we expect to require Shareholders and their proxies or corporate representatives to submit their authorisation documents, the form and substance of which will commensurate with the forms of proxy adopted by other companies listed on the Stock Exchange. Detailed requirements will be set out in the convocation notice of each general meeting (including AGM).

### **Request for a general meeting**

A Shareholder who has no less than 3% of the voting rights in our Company may request our Directors to convene a general meeting. If our Directors do not send out a convocation notice for such general meeting to be held and such general meeting is not convened by our Directors within eight weeks from the date of such request, the relevant Shareholder who made the request may convene a general meeting with court permission.

### **Request for additional matters in a meeting agenda**

Any Shareholder who has either (i) no less than 1% of the voting rights in our Company; or (ii) no less than 300 Shares may request our Directors to include certain additional matter(s) or amend certain existing matter(s) in the meeting agenda of a general meeting. Such request must be made to our Directors no less than eight weeks prior to the general meeting of our Company. If the request is made to our Directors less than eight weeks prior to the general meeting, the requested additional matter(s) or amendment(s) may be included or made in the next general meeting of our Company.

Our Articles provide that we must announce (as a voluntary announcement on the Stock Exchange's website and our Company's website) the date of a general meeting no less than 10 weeks prior to the date of that meeting so that our Shareholders, if eligible, will have a two-week period to exercise the right set out above.

### **Request for last-minute amendments to a meeting agenda**

After the convocation notice of a general meeting has been despatched, a Shareholder is permitted to propose a last-minute amendment to the matters included in an existing meeting agenda of a general meeting of our Company without any prior notice if a matter of similar nature is included in the original meeting agenda. For example, a Shareholder may propose last-minute amendments to an existing meeting agenda and nominate a person for election as a Director any time before the relevant general meeting or even at the meeting, if the original meeting agenda includes a proposal of the appointment of a new Director, or Directors, to our Board of Directors. These last-minute amendments are a theoretical mechanism which, according to our Directors' knowledge, is exceptional and rarely put into actual practice in Japan.

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If any agenda in a general meeting is rejected without receiving 10% of the votes cast at that general meeting, last-minute amendments of substantially the same nature will not be treated as an official agenda by our Company in the forthcoming general meetings within the following three years. For example, Shareholders may not be able to propose a person for election as a Director as a last-minute amendment in the following three years if a last-minute nomination of the same person as a proposed Director fails to receive 10% favourable votes in a general meeting in the past three years (so long as the backgrounds or conditions of both proposals are similar).

Due to these Japan law provisions, we are unable to comply with Rule 13.70 of the Listing Rules and paragraph 4(4) of Appendix 3 to the Listing Rules, which provide that (i) an issuer shall publish an announcement or issue a supplementary circular upon receipt of a notice from a shareholder to propose a person for election as a director at the general meeting where such notice is received by the issuer after publication of the notice of meeting; and (ii) the minimum length of the period for notice to propose a person for election as a director and that person to notify the issuer of his willingness to be elected, must be at least seven days. We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with these requirements on the basis of the voluntary measures we put in place, the details of which are set out in “Waivers — B. Additional Waivers — Announcement of Nomination of Director(s)” and “Waivers — B. Additional Waivers — Articles of Incorporation — Nomination of Director(s)”.

Shareholders and potential investors (in particular, CCASS Beneficial Owners, who customarily do not attend general meetings in person) should note that you may lose the chance to vote on a last-minute amendment if you do not attend a general meeting in person, or if you have not appointed a proxy to attend and vote on your behalf. Under our Articles, where a Shareholder (including CCASS Beneficial Owners, who cast their votes by giving instructions to HKSCC Nominees) has casted a written vote on the original matter (regardless of whether such vote was for, against or abstention from the relevant matter), his/her vote will be counted as abstention from any last-minute amendment thereof. If a Shareholder has not casted a written vote on the original matter, they will lose the right to vote on any last-minute amendment thereof unless they attend the relevant general meeting in person or through their proxies. CCASS Beneficial Owners who are unable to give instructions to HKSCC Nominees on the original matter prior to the specified deadline will lose their right to vote on any last-minute amendment thereof. In both circumstances, the voting rights of the relevant Shareholder / CCASS Beneficial Owner will not form the quorum of the original matter and any last-minute amendment thereof.

### **Casting your votes in different ways**

Under the Japan Companies Act, a Shareholder (including a nominee such as HKSCC Nominees) is permitted to divide his/her Shares and cast his/her votes corresponding to these Shares in different ways, casting his/her votes partly for and partly against a resolution. A Shareholder who wishes to cast his/her votes in different ways is required to notify our Company of his/her intention and the reasons therefor at least three days prior to the date of the relevant general meeting. Our Company may object to a Shareholder casting his/her votes in different ways if the Shareholder holds our Shares on his/her own behalf rather than as a nominee on behalf of others. Upon Listing, we will enclose a notification form with the convocation notice of each general meeting. Shareholders who wish to cast their votes in different ways should notify

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our Company by completing and returning the prescribed notification form to our Hong Kong Share Registrar. Shareholders (including nominee companies such as HKSCC Nominees) may also make a permanent election to cast their votes in different ways at all forthcoming general meetings, which may be withdrawn by writing to our Hong Kong Share Registrar.

### **Material Interests in a transaction**

The Listing Rules require that, where a transaction or arrangement of an issuer is subject to shareholders' approval under the provisions of the Listing Rules, any shareholder that has a material interest in the transaction or arrangement shall abstain from voting on the resolution(s) approving the transaction or arrangement in a general meeting. In addition, controlling shareholders must abstain from voting in favour of certain matters under the Listing Rules. There are also certain matters where independent shareholders approvals are required under the Takeovers Code.

Under Japan law, a company shall not amend its constitutional document to restrain or restrict its shareholders, including controlling shareholders, from voting on any particular resolution. Each Shareholder is, in general, entitled to a single vote for each Share he/she holds in our Company and we may not restrict this right in the circumstances provided under the Listing Rules and the Takeovers Code.

To afford our Shareholders protections comparable to those available under the Listing Rules and the Takeovers Code, our Shareholders have resolved to adopt the following alternative provisions in our Articles:

"Where a transaction or arrangement or contract or other matter is required to be approved by our Shareholders under the Listing Rules and/or the Takeovers Code:

- (a) a general meeting shall be convened to seek our Shareholders' approval of such matter;
- (b) our Hong Kong Share Registrar shall count the votes casted at the said general meeting in accordance with the criteria and requirements under the Japan Companies Act;
- (c) we shall appoint our compliance adviser or another independent financial or legal adviser to review the votes counted by our Hong Kong Share Registrar and confirm that the resolution would have been successfully passed if the votes cast had excluded the votes of our Shareholders that would otherwise be required to be abstained or otherwise uncounted under the Listing Rules and/or the Takeovers Code; and
- (d) the Shareholders' approval referred to in item (a) above and the confirmation referred to in item (c) above shall be made conditions precedent in the relevant transaction agreement and we shall implement such matter only if both conditions have been satisfied."



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Our Japan Legal Adviser is of the view that the alternative provisions in our Articles set out above should be permissible under the applicable Japan laws and regulations that are currently in force as of the date of this Prospectus on the basis that (i) while there are no definitive provisions in the Japan Companies Act, it is generally accepted that reasonable closing conditions, such as approval by regulatory authorities, may be included in a contract for a transaction that requires shareholders' approval under the Japan Companies Act; (ii) our voluntary measures in place would likely be regarded as a reasonable closing condition because our Company, as a company listed on the Stock Exchange, is required to comply with Rule 2.15 of the Listing Rules and the other relevant provisions under the Listing Rules and/or the Takeovers Code; and (iii) the closing condition would be disclosed to all Shareholders prior to the relevant general meeting, and therefore, our Shareholders who vote on the transaction should be aware of, and vote on the basis of, the transaction as a package including that condition.

We consider that the alternative provisions in our Articles set out above will allow us to comply with (i) the abstention requirements under Rule 2.15 of the Listing Rules and other relevant requirements under the Listing Rules which specifically apply these abstention requirements; and (ii) the abstention requirements under the Takeovers Code with respect to transactions that require independent shareholders' approval.

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirement under paragraph 14 of Appendix 3 to the Listing Rules to amend our Articles in accordance with the abstention requirements under the Listing Rules. See "Waivers — B. Additional Waivers — Articles of Incorporation — Material Interests in a Transaction" for details.

### **C. SHAREHOLDERS' RIGHTS**

Entitlement of certain Shareholders' rights under Japan law may differ from those available under Hong Kong law and/or the Listing Rules.

#### **CCASS Beneficial Owners**

A CCASS Beneficial Owner is not recognised as a Shareholder under Japan law until he/she withdraws the relevant Shares from CCASS and re-registers himself/herself as the registered Shareholder in our Share Register.

HKSCC Nominees will exercise the rights on behalf of CCASS Beneficial Owners in the same way it does for shareholders of other companies listed on the Stock Exchange the shares of which are deposited into CCASS.

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### Inspection of our Share Register

#### ***Shareholders and creditors***

We generally allow a Shareholder or a creditor to inspect our Share Register from time to time as required under the Japan Companies Act. We however are entitled under the Japan Companies Act to refuse a request from such persons to inspect our Share Register under the following limited circumstances:

- (i) where a request is made for a purpose other than in relation to securing or exercising rights as a Shareholder or creditor;
- (ii) where a request is made for the purpose to interfere with our business operation or to damage the interests of our Shareholders as a whole;
- (iii) where a request is made to inform, in exchange for payment, a third party of any fact that could not have been obtained other than from an inspection (including copying);
- (iv) where a person making a request has informed, in exchange for payment, a third party of any fact that could not have been obtained other than from an inspection (including copying) during the last two years; and
- (v) where the person making a request is carrying on, or engaged in, a business substantially in competition with our business (this requirement has been removed in the JCA Amendments).

A Shareholder or creditor wishing to inspect our Share Register shall attend our Hong Kong Share Registrar's office during normal business hours in Hong Kong. Our Hong Kong Share Registrar will require the person to complete a prescribed form setting out his/her details and the purposes of inspection. Our Hong Kong Share Registrar will then contact our Company and notify the relevant Shareholder or creditor of our Company's decision within two business days and, if approved, our Hong Kong Share Registrar will notify the Shareholder or creditor the date of inspection. A printed copy of our Share Register may also be requested. Other than applicable printing costs, no fee will be charged for the inspection.

#### ***Non-shareholder and non-creditor***

Any person who is not a Shareholder or creditor of our Company (including national and prefectural government agencies) may also, to the extent allowed under the Personal Information Protection Act, inspect and obtain a copy of our Share Register. As advised by our Japan Legal Adviser, our Share Register is, under the Personal Information Protection Act, open for inspection for persons other than our Shareholders and creditors if:

- (i) the inspection of our Share Register is based on laws and regulations;

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- (ii) the inspection of our Share Register is necessary for the protection of the life, body, or property of an individual and if it is difficult to obtain the consent of the person who is the subject of the inquiry;
- (iii) the inspection of our Share Register is necessary for improving public health or promoting the sound growth of children and if it is difficult to obtain the consent of the person who is the subject of the inquiry; or
- (iv) the inspection of our Share Register is necessary for cooperating with a state organ, a local government, or an individual or a business operator entrusted by one in executing the affairs prescribed by laws and regulations and if obtaining the consent of the person who is the subject of the inquiry is likely to impede the execution of such affairs.

CCASS Beneficial Owners are not recognised as a Shareholder under Japan law and they may not inspect our Share Register unless they are allowed to do so under the Personal Information Protection Act.

Shareholders who have surrendered their Share certificates to our Company may inspect our Share Register to check and verify their shareholdings in our Company.

### **Dividends**

#### ***Record date for distributing dividends***

Our AGM is usually held in June every year. Our Articles provide that our Board of Directors may from time to time designate a record date for our AGMs and extraordinary general meetings. A record date is the date for determining the list of eligible Shareholders entitled to vote in our AGMs and extraordinary general meetings. We may also set the same or a different record date to determine the eligibility of our Shareholders to receive dividends and/or other distributions.

#### *Final dividend*

Upon Listing, we plan to set our record date for final dividend entitlement shortly after the announcement of any final dividend declared. To comply with the requirements under the Japan Companies Act and Rule 13.66(1) of the Listing Rules, a record date in relation to final dividend, if any, will be announced by public notice in Japan, which will be replicated on the Stock Exchange's website and our Company's website in English and Chinese, at least 14 days prior to the proposed record date.

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### *Interim and other dividend payments*

Upon Listing, we plan to set our record date for interim or other dividend entitlement shortly after the announcement of any interim or other dividend declared. To comply with the requirements under the Japan Companies Act and Rule 13.66(1) of the Listing Rules, a record date in relation to our interim or other dividend, if any, will be announced by public notice in Japan, which will be replicated on the Stock Exchange's website and our Company's website in English and Chinese, at least 14 days prior to the proposed record date.

Shareholders who acquire our Shares after the record date will not be entitled to receive dividend payment, if any.

### **Restrictions on dividend distributions**

Our Company may declare and pay, in accordance with the Japan Companies Act and our Articles, (i) interim cash dividends (declared at the end of the second quarter of a financial year) with the approval of our Board of Directors and (ii) other dividends (including year-end dividends) with the approval of our Board of Directors (unless such dividend is proposed to be paid in kind (other than scrip dividends in the form of Shares, bonds (including convertible bonds) and SARs issued by our Company, which the Japan Companies Act prohibits) without giving Shareholders the right to demand distribution in cash, in which case a special resolution in a general meeting would be required). Scrip dividends in the form of Shares, bonds (including convertible bonds) or SARs issued by our Company are prohibited under the Japan Companies Act. The amount or value of any dividends declared may not exceed the available Distributable Amount.

The Japan Companies Act provides that a company's Distributable Amount is calculated using the retained earnings\* (剰余金) recorded in a company's financial statements prepared in accordance with JGAAP (rather than IFRS) with certain adjustments (including deduction of the book value of any treasury stock\* (自己株式) held by a company) available under the Japan Companies Act and the relevant ordinance of the Japanese Ministry of Justice. The Japan Companies Act also requires an amount equivalent to 10% of any dividend resulting in a decrease in retained earnings\* (剰余金) to be allocated to reserves\* (準備金) until the aggregate amount of the reserve\* (準備金) equals 25% of the amount of share capital. See "Appendix V – Summary of our Articles of Incorporation and Japan Corporation Law – 6. Dividends and Distributions" for a detailed description on how Distributable Amount is calculated under the Japan Companies Act.

Given that our consolidated financial information set out as Appendix I to this Prospectus have been prepared in accordance with IFRS, the amounts of the consolidated retained earnings determined under IFRS differ from the retained earnings\* (剰余金) recorded in our Company's entity level financial statements under JGAAP. The differences are caused by items which include, for example, the adjustment related to goodwill and intangible asset amortisation, share-based payments and derivative financial liabilities.

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Our Company will procure our accounting auditor to prepare reconciliation between our financial statements under JGAAP and IFRS for each financial year following the Listing and despatch of such reconciliation documents to our Shareholders together with our annual report (or summary financial report). For indicative purposes, our Company's annual report incorporating financial statements (or a summary financial report) prepared in accordance with IFRS will include the Distributable Amount as at the end of the financial year.

### ***Currency of dividend payments***

Shareholders entitled to receive cash dividends from our Company (other than CCASS Beneficial Owners) will have the option of receiving their entitlements in either Japanese Yen or Hong Kong Dollars (to be converted by our Company at the then prevailing foreign exchange rates available to our Company), provided that, in order to elect Japanese Yen, Shareholders must supply bank account details in Japan (such bank must be a member of The Japanese Bankers Currency Exchange Institution) to our Company through our Hong Kong Share Registrar. No partial election will be allowed, and Shareholders, including nominee companies which hold Shares on behalf of our Shareholders, cannot elect to receive part of the cash dividends in Japanese Yen and part of the cash dividends in Hong Kong Dollars. If no election is made by a Shareholder, such Shareholder will receive dividend payments in Hong Kong Dollars. Shareholders who have previously elected to receive dividend payments in Japanese Yen and supplied bank account details in Japan to our Company will continue to receive dividend payments in Japanese Yen. Each such Shareholder can exercise their option by informing our Hong Kong Share Registrar of its election. Upon declaration of dividend payment, our Hong Kong Share Registrar will notify our Company of the aggregate amount in Japanese Yen and Hong Kong Dollars to be paid to our Shareholders. Dividend payments in Hong Kong Dollars will be paid by our Hong Kong Share Registrar to the relevant Shareholders upon receipt of the requisite funds from our Company, whereas dividend payments in Japanese Yen will be directly paid by our Company.

All CCASS Beneficial Owners will receive dividend payments in Hong Kong Dollars. Any CCASS Beneficial Owner who wishes to elect to receive his/her dividend payments in Japanese Yen must withdraw the relevant Shares from CCASS and supply bank account details in Japan (such bank must be a member of The Japanese Bankers Currency Exchange Institution) to our Company through our Hong Kong Share Registrar.

### **Compulsory Acquisitions**

Under the Companies Ordinance, the minority shareholders of a Hong Kong-incorporated company may be compulsorily brought out or may require an offeror to buy out their interests if the offeror acquires 90% of the issued shares in a successful takeover without shareholders' approval. Under the relevant Japan laws and regulations, compulsory acquisitions can be achieved without shareholders' approval by the following transactions:

- (i) An offeror (which must be a Japan-incorporated company) having acquired 90% or more of the voting rights in a stock company\* (株式会社) (which our Company is one) may (aa) acquire the remaining interests of the minority shareholders by way of a share

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exchange\* (株式交換) arrangement; or (bb) cash out the remaining interests of the minority shareholders by way of a merger\* (合併) arrangement (the “**JCA Compulsory Acquisitions**”) only with the approval of the board of directors of the said company. In case of a share exchange\* (株式交換) arrangement, the offeror must be a stock company\* (株式会社) or a limited liability company\* (合同会社).

- (ii) Under the JCA Amendments, which will come into effect on 1 May 2015, an offeror having acquired 90% or more of the voting rights in a stock company\* (株式会社) (which our Company is one) may compulsorily acquire the interests of all remaining shareholders only with the approval of the board of directors of the said company (the “**JCA Amendment Compulsory Acquisition**”).

Other than the transactions above, there is currently no provision under Japan laws and regulations similar to the compulsory acquisition regime under the Companies Ordinance that would otherwise allow an offeror in a successful takeover to buy out the minority shareholders without shareholders’ approval, regardless of the shareholding percentage acquired by such offeror.

Apart from the JCA Compulsory Acquisitions and the JCA Amendment Compulsory Acquisition, under Japan laws, an offeror of a successful takeover or the minority shareholders of a Japan-incorporated company may also achieve a similar outcome of compulsory acquisitions by proposing a number of alternative transactions (the “*Share Transactions*”) to the subject company, all of which are subject to shareholders’ approval.

To initiate the Share Transactions, an offeror in a successful takeover or minority shareholders may either (i) request for the convocation of a general meeting; or (ii) request for additional matter(s) to be included in the agenda of a general meeting. See “- B. Shareholders’ Meetings” in this section above for the detailed procedures.

Under the Japan Companies Act, the approval threshold of the Share Transactions is two-third of the votes of shareholders present at a general meeting, which is significantly lower than the 90% threshold of the compulsory acquisition regime under the Companies Ordinance. As an enhanced measure of shareholders’ protections, our Articles provide that at least 90% of the votes of Shareholders present at a general meeting are required to effect the Share Transactions.

Our Directors are of the view that, in relation to compulsory acquisitions, the level of protections under our Articles and the relevant Japan laws and regulations taken as a whole is largely commensurate to the shareholders’ protections provided under the Companies Ordinance (given the Articles provisions put in place by us).

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In addition, investors should note that, unlike the Companies Ordinance, there is no restriction under the relevant Japan laws and our Articles on the acquisition price of the transactions set out above. Minority shareholders may resort to a number of court procedures to (i) request the court to cease the relevant transactions; or (ii) determine a fair acquisition price. There may be significant delays and costs involved in the initiation of the aforementioned court procedures.

See “Appendix V – Summary of our Articles of Incorporation and Japan Corporation Law – 8. Compulsory Acquisitions” for the details of the compulsory acquisition provisions under Japan law and our Articles.

### D. CAPITAL STRUCTURE

Set out below are the key provisions under Japan law regarding allotment and issue of Shares to a third party and share repurchases on the Stock Exchange, which differ from the regulatory regime in Hong Kong.

#### Issuing Mandate

There is no concept of pre-emptive rights (as defined in the Listing Rules) under Japan law. Under the Japan Companies Act, when a Japanese company issues new shares and SARs (including convertible bonds), certain subscription requirements (the “*Subscription Requirements*”) shall be determined. The Subscription Requirements include the number of shares or SARs (including convertible bonds) to be issued, price, payment due date and other matters prescribed under the Japan Companies Act.

Under our Articles, the Subscription Requirements of any new issue of Shares or SARs (including convertible bonds) must be determined by an ordinary resolution in a general meeting, provided however that the Subscription Requirements of the issue and allotment of Shares or SARs (including convertible bonds) at a price or term *especially favourable* to the allottees must be determined by a special resolution in a general meeting. Our Board may issue and allot the Shares or SARs once the Subscription Requirements have been determined and approved by an ordinary or special resolution (as the case may be) in a general meeting.

Our Articles further provide that (a) the total number of Shares authorised by our Shareholders to be issued is 2,000,000,000 Shares; and (b) our Shareholders may entrust the power to determine the Subscription Requirements of any new issue of Shares or SARs (including convertible bonds) to our Board by way of a general mandate. The authority of the said general mandate must be approved with an ordinary (or a special resolution, if such mandate specifically provides for an allotment at a price or term *especially favourable to the allottee*) resolution in a general meeting, which resolution shall prescribe, among others, the maximum number of Shares and SARs to be issued and allotted under the general mandate and the minimum price to be paid by the allottees. Under our Articles, the general mandate shall not be effective for more than one year from the date of the resolution approving the same. As advised by our Japan Legal Adviser, our Issuing Mandate was duly approved by our Shareholders at our extraordinary general meeting held on 16 March 2015.

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## KEY JAPAN LEGAL AND REGULATORY MATTERS

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The Articles and Japan Companies Act provisions described above apply equally to the disposal of our treasury stock\* (自己株式), if any.

On 16 March 2015, our Board has been granted with the Issuing Mandate to issue, allot and deal in our Shares, the details of which are set out in “Appendix VI — Statutory and General Information — A. Further Information about our Company — 5. Extraordinary General Meeting held on 16 March 2015”. Under our Articles and the Japan Companies Act, the Issuing Mandate is only enforceable when:

- (i) our total number of issued Shares will not exceed 2,000,000,000 Shares, which are the total number of Shares authorised to be issued by our Company, as a result of the issue and allotment made under the Issuing Mandate; and
- (ii) the allotments under the Issuing Mandate are not made at a price or term *especially favourable* to the allottees, in which case a special resolution in a general meeting is required.

For the avoidance of doubt, the Issuing Mandate grants power to our Board to issue, allot and deal with Shares only and does not grant authority to issue SARs and dispose of treasury stock\* (自己株式). Our Japan Legal Adviser has confirmed that the Shareholders’ resolution in our extraordinary general meeting held on 16 March 2015 approving the Issuing Mandate contained all the required information prescribed under our Articles. Our Directors have undertaken to the Stock Exchange that they will not exercise the Issuing Mandate if any of conditions (i) to (ii) set out above has not been fulfilled, in which case they will seek specific approval from our Shareholders in order to issue and allot new Shares.

As to the term “*especially favourable*” referred to in (ii) above, our Japan Legal Adviser has confirmed that there is no clear definition under Japan law as to the circumstances where the terms of an allotment may be deemed as *especially favourable* to the proposed allottees. Under the internal rules of The Japan Securities Dealers Association, an allotment may be taken as *especially favourable* to the proposed allottees when less than 90% of the market value of the Shares so allotted is set as consideration from the proposed allottees. Our Board may from time to time appoint an independent expert to determine whether an allotment is *especially favourable*.

Our Directors have been advised that the Issuing Mandate is in compliance with Rule 13.36 of the Listing Rules. The aggregate number of Shares under the Issuing Mandate is subject to the limit under Rule 13.36(2)(b) of the Listing Rules and is no more than the sum of:

- (a) 20% of the total number of Shares issued by our Company immediately upon completion of the Global Offering; and
- (b) the aggregate number of Shares repurchased by our Company, if any, under the Repurchase Mandate referred to below.



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### Share repurchases

Under the Japan Companies Act, a company may in general repurchase its shares through the following ways:

- (i) a company may repurchase its own shares upon agreement with one or more particular shareholder(s) with a special resolution in a general meeting approving (a) the number and class of the shares to be repurchased; (b) the contents and the aggregate amount of consideration to be paid in exchange for the repurchased shares; (c) the period during which the company may repurchase its shares (which shall not be more than one year); and (d) the name of such particular shareholder(s). Once approved, the company may repurchase the shares within the scope of the special resolution following certain prescribed procedures under the Japan Companies Act, provided however that, where the repurchase price exceeds the market price of the shares, the company shall give a notice to other shareholders to provide them with the opportunities to participate in the share repurchase prior to the general meeting approving the share repurchase;
- (ii) a company may repurchase its own shares through an offer to all shareholder with an ordinary resolution in a general meeting approving items (a) to (c) set out in (i) above. Once approved, the company may repurchase the shares within the scope of the ordinary resolution following certain prescribed procedures under the Japan Companies Act; and
- (iii) a company may repurchase its own shares through a market transaction etc.\* (市場取引等) as defined under the Japan Companies Act with an ordinary resolution in a general meeting or, where allowed under its articles, a resolution of its board of directors, approving items (a) to (c) set out in (i) above. Once approved, the company may repurchase the shares within the scope of the said resolution.

Upon Listing, we will effect repurchases of our Shares outside the Stock Exchange in accordance (i) and (ii) above, subject to compliance with all applicable Listing Rules and/or the Takeovers Code. Repurchases on the Stock Exchange will be effected under the Repurchase Mandate granted to our Board by our Shareholders on 16 March 2015 in compliance with Rule 10.06 of the Listing Rules and in accordance with (iii) above as market transactions etc.\* (市場取引等). Our Articles provide that repurchases of our own Shares can be effected through a market transaction etc.\* (市場取引等) as defined under the Japan Companies Act with a resolution of our Board (so long as such repurchases comply with the applicable requirements under the Listing Rules), allowing our Directors to effect repurchases under the Repurchase Mandate without Shareholders' specific approval.

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Based on the foregoing Articles and Japan law provisions, repurchases under the Repurchase Mandate must be market transactions etc.\* (市場取引等) as defined under the Japan Companies Act. There is no judicial precedent or interpretation confirming that a repurchase through the Stock Exchange, which is not a securities exchange in Japan, is a market transaction etc.\* (市場取引等). Given the lack of judicial precedent, our Directors have undertaken to the Stock Exchange that they will not exercise the Repurchase Mandate to repurchase our Shares on the Stock Exchange unless there is clear judicial authority allowing us to make repurchases on the Stock Exchange thereunder.

For details of the Japan law and Listing Rules provisions on the repurchases of our Shares, see “Appendix VI – Statutory and General Information – B. Repurchase of our Shares”.

### **E. TAXATION**

*Set out below are the key tax obligations that might arise from dealing in our Shares. It does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase the Shares or with regard to the taxation of our Company. Potential investors should consult your own tax advisers as to the possible tax consequences of the purchase and ownership of the Shares based on their particular circumstances. No conclusion should be drawn with respect to issues not specifically addressed by this summary. The following description of Japan law is based upon the Japan law and regulations in effect and as interpreted by the National Tax Agency of Japan as at the date of this Prospectus and is subject to any amendments to the relevant laws (or their interpretation) later introduced, whether or not on a retroactive basis. It is not intended to be, nor should it be construed to be, legal or tax advice.*

*It is emphasised that none of our Company, our Directors, or other parties involved in the Global Offering can accept responsibility for any impact on the tax liabilities of, Shareholders/ potential investors resulting from their subscription for, purchase, holding or disposal of or otherwise dealing in our Shares or exercising any rights attaching to them.*

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### 1. Withholding Tax on Dividend Payment

#### **Japanese Shareholders**

Shareholders who choose to invest outside CCASS who are either a resident in Japan or a corporation incorporated in Japan are subject to the following withholding tax rate on dividend distribution:

<b>Dividends paid and due</b>	<b>Individual Shareholder that is interested in less than 3% of our total number of issued Shares</b>	<b>Individual Shareholder that is interested in 3% or more of the entire issued Shares of our total number of issued Shares</b>	<b>Corporate Shareholder</b>
On or before 31 December 2037 . . . . .	20.315%	20.420%	15.315%
On or after 1 January 2038 . . . . .	20%	20%	15%

#### **Non-Japanese Shareholders**

Shareholders who choose to invest outside CCASS who are not residents in Japan or corporations incorporated in Japan without a permanent establishment in Japan are subject to the following withholding tax rate on dividend distribution:

<b>Dividends paid and due</b>	<b>Individual Shareholder that is interested in less than 3% of our total number of issued Shares</b>	<b>Individual Shareholder that is interested in 3% or more of the entire issued Shares of our total number of issued Shares</b>	<b>Corporate Shareholder</b>
On or before 31 December 2037 . . . . .	15.315% or 10% <sup>(1)</sup>	20.420% or 10% <sup>(1)</sup>	15.315% or 5%/10% <sup>(1)</sup>
On or after 1 January 2038 . . . . .	15% or 10% <sup>(1)</sup>	20% or 10% <sup>(1)</sup>	15% or 5%/10% <sup>(1)</sup>

Note:

- (1) Individual and corporate Shareholders who are residents or entities incorporated in Hong Kong having no permanent establishment in Japan will be subject to a withholding tax in Japan not exceeding 10% (or not exceeding 5% for corporate Shareholders who are interested in 10% or more of our total number of issued Shares for the six consecutive months ending on the record date for dividend distribution) for dividend payments under the Hong Kong-Japan Tax Treaty. See “— Hong Kong-Japan Tax Treaty” in this section below for details.

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## KEY JAPAN LEGAL AND REGULATORY MATTERS

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### ***CCASS Beneficial Owners***

Notwithstanding that CCASS Beneficial Owners are not recognised under the Japan Companies Act as Shareholders, our Tax Adviser has confirmed that Japanese tax laws would recognise CCASS Beneficial Owners who hold their investments through CCASS, being the ultimate payees of any dividend, as taxpayers. As such, the withholding tax rate applicable to the dividend paid to CCASS Beneficial Owners should, in principle, be the tax rate applicable to each CCASS Beneficial Owner on an individual basis in accordance with their identity, shareholding percentage and tax residence.

However, due to the inherent characteristics of CCASS, our Company is not able to ascertain the identity, and consequently the tax residence, of the CCASS Beneficial Owners. Our Company is therefore unable to apply a rate of withholding tax on an individual basis to CCASS Beneficial Owners. In addition, CCASS does not have the capacity to attribute to each CCASS Participant (and, accordingly, to each CCASS Beneficial Owner) its respective share of distributed profits with the purpose of enabling our Company to apply the proper withholding tax (if any).

As such, our Company will withhold tax on the dividends payable to CCASS Beneficial Owners at the highest possible withholding tax rates under Japan law, which is 20.420% for dividends paid and due on or before 31 December 2037.

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### *Withholding tax held in excess*

CCASS Beneficial Owners are subject to an initial withholding tax rate of 20.420%, which is the highest possible withholding tax rate under Japan law. Eligible CCASS Beneficial Owners may apply for a refund of taxes withheld in excess of the applicable rates that would have applied to them if they choose to invest outside CCASS from the National Tax Agency. Set out below are the rates of refunds that our CCASS Beneficial Owners may be entitled to depending on their residence or jurisdictions of incorporation:

(a) Hong Kong CCASS Beneficial Owners

CCASS Beneficial Owners who are either residents in Hong Kong or corporations incorporated in Hong Kong without any permanent establishment in Japan may be entitled to claim a refund of taxes withheld in excess from the National Tax Agency at a rate set out below:

	<b>Individual Shareholder that is interested in less than 3% of our total number of issued Shares</b>	<b>Individual Shareholder that is interested in 3% or more of the entire issued Shares of our total number of issued Shares</b>	<b>Corporate Shareholder</b>
Withholding tax rate initially withheld by our Company . . . . .	20.420%	20.420%	20.420%
Applicable tax rate that would have applied to them if they choose to invest outside CCASS . . . . .	15.315%	20.420%	15.315%
Possible rate of refunds from the National Tax Agency . . . . .	5.105%	0%	5.105%

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(b) Japanese CCASS Beneficial Owners

CCASS Beneficial Owners who are either residents in Japan or corporations incorporated in Japan may be entitled to claim a refund of taxes withheld in excess from the National Tax Agency at a rate set out below:

	<b>Individual Shareholder that is interested in less than 3% of our total number of issued Shares</b>	<b>Individual Shareholder that is interested in 3% or more of the entire issued Shares of our total number of issued Shares</b>	<b>Corporate Shareholder</b>
Withholding tax rate initially withheld by our Company .....	20.420%	20.420%	20.420%
Applicable tax rate that would have applied to them if they choose to invest outside CCASS .....	20.315%	20.420%	15.315%
Possible rate of refunds from the National Tax Agency .....	0.105%	0%	5.105%

Japanese CCASS Beneficial Owners should note that, if they elect to invest in our Company through a recognised financial instruments business operator\* (金融商品取引業者等), the obligation to pay the relevant withholding tax rests with those operators. As such, they are entitled to claim a full refund of the withholding tax withheld by our Company from Japan's National Tax Agency (i.e. 20.420% of the dividends paid).

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(c) Other CCASS Beneficial Owners

Other CCASS Beneficial Owners who are neither residents in Japan or Hong Kong or corporations incorporated in Japan or Hong Kong without any permanent establishment in Japan may be entitled to claim a refund of taxes withheld in excess from the National Tax Agency at a rate set out below:

	<b>Individual Shareholder that is interested in less than 3% of our total number of issued Shares</b>	<b>Individual Shareholder that is interested in 3% or more of the entire issued Shares of our total number of issued Shares</b>	<b>Corporate Shareholder</b>
Withholding tax rate initially withheld by our Company . . . . .	20.420%	20.420%	20.420%
Applicable tax rate that would have applied to them if they choose to invest outside CCASS . . . . .	15.315%	20.420%	15.315%
Possible rate of refunds from the National Tax Agency . . . . .	5.105%	0%	5.105%

CCASS Beneficial Owners may be able to claim a refund from Japan's National Tax Agency of withholding tax withheld in excess of by completing and returning a designated application form prepared by us in the form and substance acceptable to the National Tax Agency. Electronic copies of such application forms will be available on our Company's website upon Listing. In addition, physical application forms for tax refund in Japanese, English and Chinese will be made available to our Shareholders at our Company's principal place of business in Hong Kong and our Hong Kong Share Registrar. Our Company will announce to our Shareholders on each occasion these application forms become available. Potential investors should note that there may be delays in obtaining this refund. Detailed documentary requirements for the refund process applicable to our CCASS Beneficial Owners will be specified in our dividend payment announcements.

### ***Hong Kong-Japan Tax Treaty***

Following the conclusion of the Hong Kong-Japan Tax Treaty, effective in Japan since 14 August 2011, dividends paid by our Company to our Shareholders who (i) are Hong Kong residents or companies incorporated in Hong Kong; and (ii) have no permanent establishment in Japan, will be subject to a withholding tax in Japan not exceeding 10% (or not exceeding 5% for corporate Shareholders who are interested in 10% or more of our total number of issued Shares for the six consecutive months ending on the record date for dividend distribution) for dividends payable after 1 January 2012.

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Corporate and other individual Shareholders who hold the Shares in their own names and believe that they are entitled to reduced withholding tax rates on dividend payments made by our Company under the Hong Kong-Japan Tax Treaty will need to make an application to Japan's National Tax Agency through our Hong Kong Share Registrar to establish their eligibility to the satisfaction of Japan's National Tax Agency.

Applications for reduced withholding tax rates under the Hong Kong-Japan Tax Treaty applicable to dividend payments by our Company can be made before the record date on which Shareholders are determined to be eligible for such dividends. Applications must be made using the Application Form for Income Tax Convention (Relief from Japanese Income Tax on Dividends). Such application form is available in Japanese and English on the website of Japan's National Tax Agency at [www.nta.go.jp/tetsuzuki/shinsei/annai/joyaku/annai/pdf2/250.pdf](http://www.nta.go.jp/tetsuzuki/shinsei/annai/joyaku/annai/pdf2/250.pdf). Application forms in Japanese and English, together with an unofficial Chinese translation of the instructions for completing the application form, will be made available to our Shareholders at our Company's principal place of business in Hong Kong and our Hong Kong Share Registrar prior to the record date on which Shareholders are determined to be eligible for dividend payments. Our Company will announce to our Shareholders on each occasion these application forms become available. Detailed documentary requirements for the application process under the Hong Kong-Japan Tax Treaty will be specified in our dividend payment announcements.

Alternatively, Shareholders may be able to claim a refund from Japan's National Tax Agency of withholding tax withheld in excess of the rate payable under the Hong Kong-Japan Tax Treaty. Applications must be made using the Application Form for Refund of the Overpaid Withholding Tax Other Than Redemption of Securities and Remuneration Derived from Rendering Personal Services Exercised by an Entertainer or a Sportsman in Accordance with the Income Tax Convention which is available in Japanese and English on the website of Japan's National Tax Agency at [www.nta.go.jp/tetsuzuki/shinsei/annai/joyaku/annai/pdf2/260.pdf](http://www.nta.go.jp/tetsuzuki/shinsei/annai/joyaku/annai/pdf2/260.pdf). Physical application forms for tax refund in Japanese and English, including an unofficial Chinese translation of the instructions for completing the application form, will be made available to our Shareholders at our Company's principal place of business in Hong Kong and our Hong Kong Share Registrar. Our Company will announce to our Shareholders on each occasion these application forms become available. Potential investors should note that there may be delays in obtaining this refund. Detailed documentary requirements for the refund process under the Hong Kong-Japan Tax Treaty will be specified in our dividend payment announcements.

Potential investors are strongly advised to consult their professional advisers if you are in any doubt as to the implications of the Hong Kong-Japan Tax Treaty or the application process for any reduced rates on dividend payments made by our Company. We do not assume any responsibility to ensure withholding is made at the reduced treaty rate or to ensure no withholding is made for Shareholders who would be so eligible under any applicable income tax treaty.



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Our Tax Adviser is of the view that at this moment, CCASS Beneficial Owners cannot make a claim under a tax treaty, because the name, address and other information of a CCASS Beneficial Owner cannot be identified due to the inherent characteristics of CCASS. We will, on an on-going basis, discuss with the National Tax Agency regarding the applicability of any tax treaty between Japan and any other country to CCASS Beneficial Owners residing in such other country. In the event that the National Tax Agency has approved the application of tax treaty to such CCASS Beneficial Owners, we will publish a separate announcement on the Stock Exchange's website and our Company's website describing the procedures to make a claim under tax treaty.

### **2. Stamp duty**

#### ***Japan stamp duty***

Share transfers do not attract stamp duty in Japan. However, issue of a new Share Certificate in Japan would be subject to Japanese stamp duty (印紙税) ranging from ¥200 to ¥20,000. Upon Listing, all Share certificates of our Company will be issued by our Hong Kong Share Registrar. Accordingly, no Japanese stamp duty is, in principle, payable for our new Share certificates.

#### ***Hong Kong stamp duty***

Our Shares are considered as "*Hong Kong stock*" for the purpose of the Stamp Duty Ordinance. Dealings in the Shares in our Company, which are required to be registered in our share register through the Hong Kong Share Registrar in Hong Kong, are subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction.

### **3. Capital gain tax**

#### ***Japan capital gains tax***

As a general rule, gains derived from the sale outside Japan of our Shares by non-resident Shareholders or corporate Shareholders established outside Japan who have neither a permanent establishment in Japan nor a permanent representative in Japan to which the Shares are attributable are generally not liable to any Japanese income or corporate taxes, except for (i) any Shareholder who is interested in 25% or more in our Company's entire issued Shares at any time during the taxable year of sale or during two preceding years; and (ii) any Shareholder who transfers 5% or more of our total number of issued Shares in the taxable year of sale.

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The above taxation is subject to the application of relevant double tax treaties and, based on the provisions of the Hong Kong-Japan Tax Treaty, capital gains realised by a Shareholder, who is a resident or corporation in Hong Kong, will not be taxable under Japanese capital gains tax (even if such Shareholder is interested in 25% or more in our Company's total number of issued Shares at any time during the taxable year of sale or during two preceding years, and transfers 5% or more of our total number of issued Shares in the taxable year of sale). The absence of capital gains taxation in Japan is not subject to any specific formalities and our Shareholders who are residents or corporations in Hong Kong are therefore not required to take any action in order to enjoy this exemption.

Our Tax Adviser has confirmed that in respect of Shares deposited into CCASS, only capital gains realised by the CCASS Beneficial Owners are taxable under Japan law. Neither HKSCC Nominees nor the CCASS Participants are subject to any Japanese capital gains tax reporting or payment obligation directly arising from dealing in our Shares on behalf of the CCASS Beneficial Owners (even if a CCASS Beneficial Owner is interested 25% or more in our Company's total number of issued Shares at any time during the taxable year of sale or during two preceding years, and transfers 5% or more of our total number of issued Shares in the taxable year of sale).

### *Individual Shareholders*

Individual Shareholders who are residents in Japan who effect their dealings in our Shares through a recognised financial instruments business operator (金融商品取引業者等) are subject to capital gains tax in Japan at 20.315% for the year ending before 31 December 2037 or 20% for the year ending on or after 31 December 2038.

### *Corporate Shareholders*

Corporate Shareholders established in Japan are subject to capital gains tax in Japan at approximately 36%.

### **Hong Kong capital gains tax**

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by a person carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be subject to Hong Kong profits tax.

## **4. Inheritance tax and gift tax**

Japanese inheritance tax and gift tax at progressive rates may be payable by an individual who has acquired common Shares\* (普通株式) of our Company as a legatee, heir or donee even though neither the acquiring individual nor the deceased nor donor is a Japanese resident.

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### 5. General

Zeirishi-Hojin PricewaterhouseCoopers\* (税理士法人プライスウォーターハウスコーパーズ), our Tax Adviser, has advised our Company in writing as to (1) our potential investor's exposure to (i) Japanese withholding tax on dividend payments from our Company; (ii) Japanese capital gains tax from dealing in the Shares of our Company; (iii) Japanese stamp duty on issue of share certificates; (iv) Japanese inheritance tax and gift tax from the acquisition of the Shares of our Company as legatee, donee and heir; (2) our Company's exposure to Japanese withholding tax on dividend payments from our subsidiaries; and (3) the Japanese corporate income tax rates applicable to our Group during the Track Record Period. The letter of advice is available for inspection in accordance with "Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection".

### F. FOREIGN EXCHANGE CONTROL

The Foreign Exchange and Foreign Trade Act of Japan\* (外国為替及び外国貿易法) (Act No. 228 of 1949) and the cabinet orders and ministerial ordinances (collectively, the "*Foreign Exchange Regulations*") thereunder govern certain matters relating to the issue of equity-related securities by us and the acquisition, holding and disposal of Shares by foreign investors of our Company. Under certain prescribed circumstances, Shareholders and CCASS Beneficial Owners may be required to file a foreign exchange report or notification to The Bank of Japan.

The filing obligations are generally exempted if: (i) a Shareholder or CCASS Beneficial Owner is a resident of, or a corporation organised under the laws of, certain exempted jurisdictions (which include Hong Kong, the U.S., the United Kingdom, Canada, Australia, the PRC, among others); and (ii) if their shareholding interests in our Company do not exceed 10%.

See "Appendix V – Summary of our Articles of Incorporation and Japan Corporation Law – 10. Foreign Exchange Control" for a list of the exempted jurisdictions and details of the filing requirements under the Foreign Exchange Regulations.

### G. SHAREHOLDERS PROTECTION

Set out below is a comparison of the applicable laws and regulations in Hong Kong and Japan on certain key shareholder protection standards that we consider material to our Shareholders and investors.

#### Amendment to constitutional documents

Under Hong Kong law, any alteration to the articles of association of a company (except for alternation to the maximum number of shares that the company may issue) must generally be made by a 75% majority vote in a general meeting. Under Japan law, in order to amend the articles of incorporation, the resolution of the shareholders' meeting shall in general be approved by at least two-thirds of the voting rights of the shareholders present at a meeting where the shareholders holding at least one-third of the voting rights who are entitled to exercise their voting rights are present. The standard of shareholders' protection under Japan law is similar to or comparable with that under Hong Kong law.

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### **Variation of rights**

Under Hong Kong law, rights attached to shares in a class of shares in a company may be varied only with either (a) a written consent of holders representing at least 75% of the total voting rights of holders of shares in the class; or (b) a 75% majority vote passed at a separate general meeting of holders of shares in the class sanctioning the variation, unless otherwise provided under the articles of association. Under Japan law, in order to vary the rights attached to any class of shares, the resolution of the general meeting shall be approved by at least two-thirds of the voting rights of the shareholders present at a meeting where the shareholders holding at least a majority (which is lowered to one-third under our Articles) of the voting rights who are entitled to exercise their voting rights are present. Moreover, if a proposed amendment would be detrimental to shareholders of such class of shares, the resolution of the class shareholders' meeting must be approved by at least two-third of the voting rights of the class shareholders present at a meeting where the class shareholders holding at least a majority of the voting rights who are entitled to exercise their voting rights are present. The standard of shareholders' protection under Japan law is not materially different to that under Hong Kong law.

Under our Articles, our Company is not allowed to issue any other class of Shares other than our common Shares\* (普通株式). The requirements in relation to class meetings set out above are therefore not applicable to us.

### **Liability to the company**

Under Hong Kong law, a person who is a member of a company is not bound by any alteration of the articles of association of the company that takes effect after the date on which the person became a member if the alteration increases the person's liability to the company unless the person agrees in writing before, on or after the alternation taking effect to be bound by such alteration. Under Japan law, existing shareholders are not subject to any liability to the company except to the extent of the amount payable in respect of the shares such existing shareholders subscribed or purchased when they acquired such shares from our Company. The standard of shareholders' protection under Japan law is not materially different to that under Hong Kong law.

### **Winding Up**

Under Hong Kong law, the voluntary winding up of a company must be approved by shareholders with a 75% majority vote in a general meeting. Under Japan law, in order to voluntarily wind up a company, the resolution of a shareholders' meeting must be approved by at least two-thirds of the voting rights of the shareholders present at a meeting where the shareholders holding at least a majority (which is lowered to one-third in our Articles) of the voting rights who are entitled to exercise their voting rights are present. The standard of shareholders' protection under Japan law is not materially different to that under Hong Kong law.

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## KEY JAPAN LEGAL AND REGULATORY MATTERS

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### Auditors

Under Hong Kong law, the appointment, removal and remuneration of auditors must be approved by a majority vote in a general meeting. Under Japan law and our Articles, in order to appoint an accounting auditor of our Company, the resolution of our general meeting must be approved by a majority vote of our Shareholders present at the meeting where the Shareholders holding at least one-third of the voting rights who are entitled to exercise their voting rights are present. The removal of accounting auditor requires a resolution of a general meeting to be approved by at least a majority of the voting rights of the Shareholders present at a meeting where the Shareholders holding at least a majority of the voting rights who are entitled to exercise their voting rights are present. The remuneration of accounting auditor, on the other hand, is determined by our Audit Committee which is entirely made up of Independent Non-executive Directors. The standard of shareholders' protection under Japan law is similar to or comparable with that under Hong Kong law.

### Register of members

Under Hong Kong law, a member of a company is entitled, on request made in the manner prescribed under law and without charge, to inspect the register of members of the company. In the case of our Company, our Hong Kong Share Registrar will maintain our Share Register in Hong Kong and make available a copy for inspection by our Shareholders and creditors. However, there are certain limited circumstances under the Japan Companies Act under which our Company may reject a request for inspection from our Shareholders and creditors. In addition, the Personal Data Information Act provides that we may not allow a person other than our Shareholders and creditors to inspect our Share Register except under certain circumstances. For details of the rejection criteria under the Japan Companies Act and the relevant provisions under the Personal Information Protection Act, see “— C. Shareholders' Rights — Inspection of our Share Register” in this section above.

### Compulsory Acquisition

Under the Companies Ordinance, the minority shareholders of a Hong Kong-incorporated company may be compulsorily brought out or may require an offeror to buy out their interests if the offeror acquires 90% of the issued shares in a successful takeover without shareholders' approval. Under the relevant Japan laws and regulations, compulsory acquisitions can be achieved without shareholders' approval by the following transactions:

- (i) An offeror (which must be a Japan-incorporated company) having acquired 90% or more of the voting rights in a stock company\* (株式会社) (which our Company is one) may (aa) acquire the remaining interests of the minority shareholders by way of a share exchange\* (株式交換) arrangement; or (bb) cash out the remaining interests of the minority shareholders by way of a merger\* (合併) arrangement (the “*JCA Compulsory Acquisitions*”) only with the approval of the board of directors of the said company. In case of a share exchange\* (株式交換) arrangement, the offeror must be a stock company\* (株式会社) or a limited liability company\* (合同会社).

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## KEY JAPAN LEGAL AND REGULATORY MATTERS

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- (ii) Under the JCA Amendments, an offeror having acquired 90% or more of the voting rights in a stock company\* (株式会社) (which our Company is one) may compulsorily acquire the interests of all remaining shareholders only with the approval of the board of directors of the said company (the “*JCA Amendment Compulsory Acquisition*”).

Other than the transactions above, there is currently no provision under Japan laws and regulations similar to the compulsory acquisition regime under the Companies Ordinance that would otherwise allow an offeror in a successful takeover to buy out the minority shareholders without shareholders’ approval, regardless of the shareholding percentage acquired by such offeror.

Apart from the JCA Compulsory Acquisitions and the JCA Amendment Compulsory Acquisition, under Japan laws, an offeror of a successful takeover or the minority shareholders of a Japan-incorporated company may also achieve a similar outcome of compulsory acquisitions by proposing a number of alternative transactions (the “*Share Transactions*”) to the subject company, all of which are subject to shareholders’ approval.

To initiate the Share Transactions, an offeror in a successful takeover or minority shareholders may either (i) request for the convocation of a general meeting; or (ii) request for additional matter(s) to be included in the agenda of a general meeting. See “— B. Shareholders’ Meetings” in this section above for the detailed procedures.

Under the Japan Companies Act, the approval threshold of the Share Transactions is two-third of the votes of shareholders present at a general meeting, which is significantly lower than the 90% threshold of the compulsory acquisition regime under the Companies Ordinance. As an enhanced measure of shareholders’ protections, our Articles provide that at least 90% of the votes of Shareholders present at a general meeting are required to effect the Share Transactions.

Our Directors are of the view that, in relation to compulsory acquisitions, the level of protections under our Articles and the relevant Japan laws and regulations taken as a whole is largely commensurate to the shareholders’ protections provided under the Companies Ordinance (given the Articles provisions put in place by us).

### **Meetings**

Under Hong Kong law, except for a private company or a company limited by guarantee, a company must, in respect of each financial year, hold a general meeting as its annual general meeting within six months after the end of its accounting reference period. Japan law provides that a Japan company must hold an annual general meeting within three months from the end of its financial year. The standard of shareholders’ protection under Japan law is similar to or comparable with that under Hong Kong law.

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## KEY JAPAN LEGAL AND REGULATORY MATTERS

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### **Right to convene meetings**

Under Hong Kong law, the directors are required to call a general meeting if the company has received requests to do so from members of the company representing at least 5% of the total voting rights of all the members having a right to vote at general meetings. In addition, a company must circulate a resolution proposed as a written resolution if it has received requests to do so from the members of the company representing not less than 5% (or a lower percentage prescribed in the company's articles of association) of the total voting rights of all the members entitled to vote on the resolution. Japan law provides that a shareholder who has held no less than 3% of the voting rights in a company for the last six consecutive months may request its directors to convene a general meeting. If the directors do not send out a convocation notice for such general meeting to be held and such shareholders' meeting is not convened by the directors within eight weeks from the date of such request, the relevant Shareholder who made the request may convene a general meeting with court permission.

The standard of shareholders' protection under Japan law is not materially different to that under Hong Kong law.

### **Notice of meetings**

Under Hong Kong law, the notice period for all general meetings is 14 days (regardless of whether an ordinary or special resolution is proposed for consideration), except the notice period for an annual general meeting is 21 days. Our Articles provide that convocation notice of our AGMs and extraordinary general meeting must be despatched 21 days prior to the date thereof.

In addition, after the convocation notice of a general meeting has been despatched, a Shareholder is permitted to propose a last-minute amendment to the matters included in an existing meeting agenda of a general meeting of our Company without any prior notice if a matter of similar nature is included in the original meeting agenda. For example, a Shareholder may propose last-minute amendments to an existing meeting agenda and nominates a person for election as a director at any time before the relevant general meeting or even at the meeting, if the meeting original agenda includes a proposal of the appointment of a new Director, or Directors, to our Board of Directors. These last-minute amendments are a theoretical mechanism which, according to our Directors' knowledge, is exceptionally rarely put into actual practice in Japan.

### **Distribution of notices**

Under Hong Kong law, notice of a general meeting must be (i) given in hard copy form or in electronic form; or (ii) by making the notice available on a website; or (iii) a combination of the aforementioned manners. Japanese companies have similar procedures for the distributions of notices and voting. Upon Listing, notice of our general meetings will be despatched in hard copies and published on a Japanese newspaper as well as our Company's website and the website of the Stock Exchange.

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## KEY JAPAN LEGAL AND REGULATORY MATTERS

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### **Voting**

The Listing Rules require that, where a transaction or arrangement of an issuer is subject to shareholders' approval under the provisions of the Listing Rules, any shareholder that has a material interest in the transaction or arrangement shall abstain from voting on the resolution(s) approving the transaction or arrangement in a general meeting. In addition, controlling shareholders must abstain from voting in favour of certain matters under the Listing Rules. There are also certain matters where independent shareholders approvals are required under the Takeovers Code. See “— B. Shareholders' Meetings — Material Interests in a Transaction” in this section above for the voluntary measures we have put in place to afford our Shareholders protections comparable to those available under the Listing Rules and the Takeovers Code.

### **Proxies**

Under Hong Kong law, a member of a company is entitled to appoint another person (whether a member or not) as a proxy to exercise all of the member's rights to attend and to speak and vote at a general meeting. A company must also ensure that in a notice calling a general meeting of the company, there must appear, with reasonable prominence, a statement informing the members of their rights to appoint a proxy. In addition, a body corporate which is a member of a company may authorise any person it thinks fit to act as its corporate representative at any meeting of the Company, exercising the same powers on behalf of the body corporate as the body corporate could exercise if it were an individual member of the company. In the case of our Company, we do not impose any restriction or limitation on the identity or qualification of proxies or corporate representatives appointed by our Shareholders. See “— B. Shareholders Meetings — Proxies and Corporate Representatives” in this section above for powers entitled to be exercised by proxies or corporate representatives appointed by our Shareholders, which are not materially different by those offered under Hong Kong law.

### **Voting by poll**

Under Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Voting in our general meetings is conducted by poll in practice. Each Share held by our Shareholders, in general, entitles them one vote in our general meeting. Under our Articles, we must count our votes in accordance with the number of Shares owned by each Shareholder. Voting by show of hand is not possible under the Japan Companies Act and our Articles.

### **Appointment of directors**

Under Hong Kong law, the appointment of each director is required to be voted on individually. A unanimous approval of the shareholders is required to pass a resolution permitting appointment of two or more directors by a single resolution. Japan law generally does not require



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the appointment of each director to be voted on individually. The standard of shareholders' protection under Japan law is not materially different to that under Hong Kong law as this is purely an administrative matter. In case of our Company, cumulative voting on the appointment of Directors is prohibited under our Articles.

### **Declaration of interest**

Under Hong Kong law, if a director of a company is in any way, directly or indirectly, interested in a transaction, arrangement or contract, or a proposed transaction, arrangement or contract, with the company that is significant in relation to the company's business and the director's interests is material, the director must declare the nature and extent of the director's interest to the other directors. A declaration of interest in a transaction, arrangement or contract that has been entered into must be made as soon as reasonably practicable, and a declaration of interest in a proposed transaction, arrangement or contract must be made before the company enters into the said transaction, arrangement or contract. Under the Japan Companies Act, a director must report all the material facts, including his/her interest, with respect to a transaction at the meeting of the board of directors to approve the relevant transaction prior to voting on it. Any such director with an interest in the transaction is not entitled to be counted in the quorum for voting on the transaction. Directors are in general not required to declare any material interest in any transaction with the company as soon as practicable after he/she is aware of such interest, but as the interest must be declared prior to approval of the transaction and the relevant director is not entitled to have his or her vote counted towards a quorum, this is not materially detrimental to shareholders. The standard of shareholders' protection under Japan law is similar to or comparable with that under Hong Kong law.

In addition, our Articles provide that a Director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates (as defined under the Listing Rules) has a material interest (as explained under the Listing Rules) nor shall he be counted in the quorum in the relevant meeting.

### **Loans to directors**

Under Hong Kong law, a company may only make loans to a director in certain limited circumstances. The Japan Companies Act does not contain specific provisions on loans to, or credit transactions with, directors, but such transactions will be governed by article 356 and article 365 of the Japan Companies Act which restrict transactions that result in a conflict of interest. Although companies are not prohibited from entering into transactions with their directors, such transactions must be approved by a vote of the board of directors which excludes the interested director from voting and being counted for the quorum. The relevant director must also report all material facts relating to such transaction at the meeting of the board of directors and after such transaction takes place without delay. The standard of shareholders' protection under Japan law is similar to or comparable with that under Hong Kong law.

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## KEY JAPAN LEGAL AND REGULATORY MATTERS

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In addition, our Articles provide that our Company shall not directly or indirectly make a loan, enter into a guarantee or provide security to a Director except as permitted under both the Japan Companies Act and the Companies Ordinance (as if our Company was a public company incorporated in Hong Kong).

### **Payments to directors**

Under Hong Kong law, any payment to a director or former director of a company as compensation for loss of office or retirement from office is required to be approved by a majority vote in a general meeting. Under Japan law, for companies with three committees\* (委員会設置会社) (which our Company is one), any remuneration, compensation or other payment (including compensation for loss of office or retirement from office) is made to directors or past directors must be determined and approved by their remuneration committees. Given that the majority of our Remuneration Committee comprises Independent Non-executive Directors, we consider that the standard of protection under Japan law is not materially different from that under Hong Kong law.

### **Alteration of share capital**

Under Hong Kong law, any alteration of share capital in the company must be approved by a majority vote in a general meeting. Japan law provides that an increase in the number of shares authorised to be issued can only be made by an alteration of a company's articles of incorporation\* (定款), which requires the resolution of the shareholders' meeting to be approved by at least two-thirds of the voting rights of the shareholders present at a meeting where the shareholders holding at least a majority (which is lowered to one-third under our Articles) of the voting rights who are entitled to exercise their voting rights are present. The standard of shareholders' protections under Japan law is similar to or comparable with that under Hong Kong law.

### **Reduction of share capital**

Under Hong Kong law, reduction of share capital in a company is generally subject to confirmation by the court or supported by a solvency statement given by all directors of the company and be approved by shareholders with a 75% majority vote in a general meeting. Alternatively, a company may reduce its capital by seeking approval of disinterested members by a 75% majority vote together with the satisfaction of a solvency test and publication of notices in the government's gazette and newspaper. Japan law generally permits a company to reduce its share capital without a court confirmation and instead by way of a resolution of the shareholders' meeting to be approved by at least two-thirds of the voting rights of the shareholders present at a meeting where the shareholders holding at least a majority (which is lowered to one-third under our Articles) of the voting rights who are entitled to exercise their voting rights are present. The standard of shareholders' protections under Japan law are not materially different to that under Hong Kong law.

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## KEY JAPAN LEGAL AND REGULATORY MATTERS

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### Redemption of shares

Under Hong Kong law, a company may make a payment in respect of a redemption of its own shares out of the company's distributable profits, out of the proceeds of a fresh issue of shares made for the purpose of redemption or out of its capital. Under Japan law, any shares to be purchased by a company must be acquired from distributable profits and a company may issue callable shares so long as such shares are issued as a separate class. Our Company however issues one class of shares only, being common Share(s)\* (普通株式). Our Articles provide that our Company shall not issue any class of shares other than common Shares. The standard of shareholders' protection in respect of share redemption under Hong Kong law is therefore not applicable to us.

### Financial assistance

Under Hong Kong law, a company is prohibited from giving financial assistance for the acquisition of its shares or shares in its holding company in certain circumstances. Although there are no specific provisions in the Japan Companies Act that are intended to prevent financial assistance, giving direct or indirect financial assistance for the acquisition of its shares or shares in its holding company that results in a reduction of the net assets of a company would amount to a violation of fiduciary duty of directors and other officers, unless there is a reasonable ground to do so. The standard of shareholders' protections under Japan law is not materially different to that under Hong Kong law.

In addition, our Articles provide that our Company may not give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any Share except as permitted under both the Japan Companies Act and the Companies Ordinance (as if our Company was a listed company in Hong Kong).

## H. ONGOING INVESTOR EDUCATION

Information contained in this section will be available at our Company's website upon Listing for the benefits of potential investors who may invest in our Company in secondary markets. If we become aware of any legal or regulatory development which may affect the information contained in this section, we will update the relevant contents on our Company's website and issue a voluntary announcement.

We will also caution our investors the risks associated with our "bearer shares" in our share certificates, annual/interim reports and the front page of the "Investor Relations" section of our Company's website.

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## WAIVERS

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*In preparation for the Listing, we have applied for, and have been granted by the Stock Exchange, a number of waivers from strict compliance with certain provisions under the Listing Rules. A summary of these waivers are set out in this section below. These waivers have been granted to us, in part, on the basis of the protections available to our Shareholders under the applicable Japan laws and regulations. Further information in relation to the provisions of laws and regulations applicable to us is set out in “Key Japan Legal and Regulatory Matters” and “Appendix V – Summary of our Articles of Incorporation and Japan Corporation Law”.*

*Some of the waivers applied by us were granted by the Stock Exchange on the basis of circumstances which are specific to us. In the event of any changes to these circumstances (including changes in Japan laws and regulations which form the basis of these waivers), we will notify the Stock Exchange as soon as practicable.*

### **A. COMMON WAIVER**

Set out below is the common waiver of general effects that was granted to us by the Stock Exchange under Rule 2.04 of the Listing Rules with the prior consent of the SFC:

<b>Relevant Rule(s) waived</b>	<b>Subject matter</b>	<b>Page No.</b>
Rule 8.12 . . . . .	Sufficient management presence in Hong Kong	106

### **MANAGEMENT PRESENCE IN HONG KONG**

*Under Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our Executive Directors must be ordinarily residents in Hong Kong.*

Our Group is principally engaged in the business of owning and operating pachinko halls in Japan. The headquarters of our Company are located in Koriyama City (郡山市), Fukushima Prefecture (福島県), Japan, and our operations are managed from our headquarters with pachinko halls located across ten prefectures in Japan. We do not carry out or manage any business activity in Hong Kong.

Our Chairman is the sole Executive Director of our Company. He currently does not, and for the foreseeable future, will not, reside in Hong Kong. Since the main operations of our Group are in Japan, we consider it practically difficult and commercially unviable and unnecessary for our Company to either relocate our Chairman to Hong Kong, or appoint two additional Executive Directors who will ordinarily reside in Hong Kong. We further consider that it is in the best interest of our Company and our Shareholders for our Chairman to attend to his functions and duties in Japan and remain close to our core operations.

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Accordingly, our Company does not have, and does not contemplate in the foreseeable future to have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

In light of the aforesaid, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Listing Rules on the following conditions:

- (a) pursuant to Rules 2.11, 3.05 and 19.36(6) of the Listing Rules, we have appointed two authorised representatives who will act as our principal channel of communication with the Stock Exchange. The two authorised representatives are Mr. Hiroaki KUMAMOTO (熊本浩明) (an Independent Non-executive Director) and Ms. YIU Wai Man Karen (姚慧敏) (one of the joint company secretaries). The authorised representatives will be available to meet with the Stock Exchange on reasonable notice as and when required and will be readily available by telephone, email and facsimile to promptly address the enquiries of the Stock Exchange and their contact details (including mobile phone numbers, residential and office phone numbers and facsimile numbers) have been provided to the Stock Exchange. We will inform the Stock Exchange promptly in respect of any change in the authorised representatives and their alternate(s);
- (b) each of the authorised representatives is duly authorised to communicate on behalf of our Company with the Stock Exchange. The authorised representatives will be able to contact our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matter. Each of our Directors is authorised to communicate on our Company's behalf with the Stock Exchange;
- (c) all Directors have provided their mobile phone numbers, office phone numbers, facsimile numbers and email addresses to the Stock Exchange. Each of our Directors is authorised to communicate on our Company's behalf with the Stock Exchange;
- (d) each of our Directors (including Independent Non-executive Directors) hold valid travel documents such that he will be available to travel to Hong Kong to meet with the Stock Exchange within a reasonable timeframe upon request of the Stock Exchange;
- (e) our Company will retain professional advisers (including legal advisers and accountants) to advise on our on-going compliance obligations and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing;
- (f) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser who will have access at all times to the authorised representatives, our Directors and the other senior management of our Company. The compliance adviser will be appointed for a period commencing on the Listing Date and ending on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing; and

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- (g) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or the compliance adviser, or directly with our Directors, within a reasonable time frame.

Our Directors and the Sole Sponsor have confirmed that the conditions set out under the appendix to the Joint Policy Statement and the Stock Exchange's Guidance Letter HKEx-GL9-09 in relation to this waiver have been fulfilled.

### **B. ADDITIONAL WAIVERS**

Set out below are the additional waivers that were granted to us by the Stock Exchange based on the circumstances that are specific to us:

<b>Relevant Rule(s) waived</b>	<b>Subject matter</b>	<b>Page No.</b>
Rule 13.70 . . . . .	Announcement of Nomination of Director(s)	108
Paragraphs 2(2), 3(1), 4(2), 4(4), 4(5), 12 and 14 of Appendix 3 to the Listing Rules . . . . .	Requirements with respect to our Articles	109

### **ANNOUNCEMENT OF NOMINATION OF DIRECTOR(S)**

*Rule 13.70 of the Listing Rules requires that an issuer publish an announcement or issue a supplementary circular upon receipt of a notice from a shareholder to propose a person for election as a director at the general meeting where such notice is received by the issuer after publication of the notice of meeting. The Note to Rule 13.70 of the Listing Rules further provides that the issuer must assess whether or not it is necessary to adjourn the meeting of the election to give shareholders at least ten business days to consider the relevant information disclosed in the announcement or supplementary circular.*

Under article 304 of the Japan Companies Act, a Shareholder is permitted to propose a last minute amendment to the matters included in an existing meeting agenda of a general meeting of our Company without any prior notice if a matter of similar nature is included in the original meeting agenda. Shareholders may propose last-minute amendments to an existing meeting agenda and nominates a person for election as a Director at any time before the relevant general meeting or even at the meeting, if the original meeting agenda includes a proposal of the appointment of a new Director, or Directors, to our Board of Directors. These last-minute amendments are a theoretical mechanism which, according to our Directors' knowledge, is exceptionally rarely put into actual practice in Japan.

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In light of these Japan law provisions, the requirements under Rule 13.70 of the Listing Rules are inconsistent with, and unenforceable under, Japan law if any of our Shareholders proposes last-minute amendments to an existing meeting agenda of our general meetings and nominates a person for election as a Director. On such basis, we have applied for, and the Stock Exchange has granted us, a partial waiver from strict compliance with Rule 13.70 of the Listing Rules on the conditions that:

- (a) we will use all means and resources reasonably available to us to make an announcement to inform our Shareholders as soon as reasonably practicable upon receipt of last-minute amendments to an existing meeting agenda on the election and/or re-election of Director(s), so long as it is made before the date of the relevant general meeting; and
- (b) we will publish the above announcement on the Stock Exchange's website and the website of our Company in English and Chinese.

The partial waiver referred to above only applies to circumstances where a Shareholder, pursuant to the Japan Companies Act, proposes last-minute amendments to an existing meeting agenda of our Company's general meetings and nominates a person for election as a Director. On all other occasions, we will comply with the requirements under Rule 13.70 of the Listing Rules.

Our Directors and the Sole Sponsor have confirmed that the Stock Exchange's approach set out in the Country Guide with respect to Rule 13.70 of the Listing Rules is adopted. Our Company considers that the protections afforded to our Shareholders, considering the voluntary measures set out above in place, will be comparable to the relevant requirements under the Listing Rules.

## ARTICLES OF INCORPORATION

*Appendix 3 to the Listing Rules provides that the articles of association or equivalent document of an issuer must conform with the provisions set out in that appendix and, where necessary, a certified copy of a resolution of the board of directors or other governing body undertaking to comply with the appropriate provisions must be lodged with the Stock Exchange.*

Our Articles do not contain equivalent provisions in compliance with certain requirements under Appendix 3 to the Listing Rules on the basis that the protections afforded to our Shareholders are comparable to those available under the Listing Rules pursuant to those requirements. Set out below are the comparable shareholders protections offered under the Japan regime of each of the relevant requirements under Appendix 3 to the Listing Rules and any difference between the Japan legal and regulatory requirements and the requirements under the Listing Rules.

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## WAIVERS

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### **Definitive certificates**

*Paragraph 2(2) of Appendix 3 to the Listing Rules provides that where the power is taken to issue share warrants to bearer, no new share warrant shall be issued to replace one that has been lost, unless the issuer is satisfied beyond reasonable doubt that the original has been destroyed.*

Our Articles contain no equivalent provision. The concept of share warrants was abolished with the introduction of the Japan Companies Act in 2006. Our Company may issue SARs in lieu of share warrants and we may issue certificates representing SARs. Under Japan law, any holders of SARs who have lost certificates may not request the re-issue of their certificate unless they have obtained a decision for invalidation by a court of justice in Japan as provided under article 106(1) of the Non-contentious Cases Procedures Act\* (非訟事件手続法) of Japan (Act No. 51 of 2011), in accordance with article 291 of the Japan Companies Act.

We consider that the protections afforded to our Shareholders under the Japan law provisions above are comparable to those available under paragraph 2(2) of Appendix 3 to the Listing Rules.

### **Dividends**

*Paragraph 3(1) of Appendix 3 to the Listing Rules provides that any amount paid up in advance of calls on any share may carry interest, but shall not entitle the holder of the share to participate in respect thereof in a dividend subsequently declared.*

Our Articles contain no equivalent provision. Under Japan law, there is no concept of amounts paid up in advance of calls on shares. Articles 208 and 209 of the Japan Companies Act provide that all consideration due for shares issued by a Japanese company must be paid in full on their issue, at which point the party subscribing for such shares will become entitled to dividends declared by that company on record dates on or after such issue.

We consider that, under Japan law, there are no circumstances under which paragraph 3(1) of Appendix 3 to the Listing Rules would apply to us since amounts may not be paid in advance of calls on our Shares.

### **Casual vacancy**

*Paragraph 4(2) of Appendix 3 to the Listing Rules provides that any person appointed by the directors to fill a casual vacancy on the board must hold office only until the following annual general meeting and will then be eligible for re-election.*

Our Articles contain no equivalent provision. Under article 329 of the Japan Companies Act, a vacant directorship may only be filled following a vote of shareholders in a general meeting. If the vacancy causes the number of appointed directors to fall below the number of directors



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required either under the articles of incorporation\* (定款) or the Japan Companies Act, the remaining director(s) must without delay convene a general meeting to appoint additional director(s). Failure to do so will subject the remaining director(s) to a maximum fine of ¥1 million.

Under the Japan Companies Act, a minimum of three Directors are required to be appointed. Under our Articles, the number and composition of our Board must at all times comply with the relevant requirements under the Listing Rules (such as the requirement to appoint at least three Independent Non-executive Directors under Rule 3.10(1) of the Listing Rules). Upon Listing, when the number and composition of our Board fall short of the requirements under the Listing Rules, the remaining Directors will without undue delay convene a general meeting to appoint additional Director(s) in accordance with our Articles and the Japan Companies Act.

In addition, under limited circumstances, the court may appoint a person to fill up a vacant directorship on a temporary basis under the Japan Companies Act. Our Articles provide that any Director so appointed by the court shall hold office only until the following AGM.

We consider that, under Japan law, there are no circumstances under which paragraph 4(2) of Appendix 3 to the Listing Rules would apply to us as no person shall be appointed by our Directors to fill a casual vacancy under the Japan Companies Act.

### **Nomination of Director(s)**

*Paragraph 4(4) of Appendix 3 to the Listing Rules provides that the minimum length of the period for notice to propose a person for election as a director and that person to notify the issuer of his willingness to be elected, must be at least seven days. Paragraph 4(5) of Appendix 3 to the Listing Rules provides that period for lodgement of the notices referred to in paragraph 4(4) shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.*

Our Articles contain no equivalent provision. Under the Japan Companies Act, a Shareholder is permitted to propose a last-minute amendment to the matters included in an existing meeting agenda of a general meeting of our Company without any prior notice if a matter of similar nature is included in the original meeting agenda. Shareholders may propose last-minute amendments to an existing meeting agenda and nominates a person for election as a director at any time before the relevant general meeting or even at the meeting, if the original meeting agenda includes a proposal of the appointment of a new Director, or Directors, to our Board of Directors. These last-minute amendments are a theoretical mechanism which, according to our Directors' knowledge, is exceptionally rarely put into actual practice in Japan.

In light of these Japan law provisions, the requirements under paragraphs 4(4) and 4(5) of Appendix 3 of the Listing Rules are inconsistent with, and unenforceable under, Japan law if any of our Shareholders proposes last-minute amendments to an existing meeting agenda of the general meetings of our Company and nominates a person for election as a Director.

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## WAIVERS

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We have adopted the following voluntary measures to afford our Shareholders protections comparable to those available under paragraphs 4(4) and 4(5) of Appendix 3 to the Listing Rules:

- (a) we will use all means and resources reasonably available to us to make an announcement to inform our Shareholders as soon as reasonably practicable upon receipt of a proposal to make last-minute amendment to an existing meeting agenda on the election and/or re-election of Director(s), so long as it is made before the date of the relevant general meeting; and
- (b) we will publish the above announcement on the Stock Exchange's website and the website of our Company in English and Chinese.

Our Directors and the Sole Sponsor have confirmed that the Stock Exchange's approach as set out in the Country Guide with respect to paragraphs 4(4) and 4(5) of Appendix 3 to the Listing Rules is adopted. Our Company considers that the protections afforded to our Shareholders, considering the voluntary measures in place, will be comparable to the relevant requirements under the Listing Rules.

### **Disclosure of Interests**

*Paragraph 12 of Appendix 3 to the Listing Rules provides that no power shall be taken to freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the company.*

Our Articles contain no equivalent provision. Under Japan law, there are no circumstances where a company would be empowered to take action on a shareholder's failure to disclose their interests to the company. As such, any amendment made to our Articles pursuant to this requirement will be redundant and unnecessary under Japan law.

### **Untraceable members**

*Paragraph 13(1) of Appendix 3 to the Listing Rules provides that an issuer must not stop sending dividend warrants by post until these warrants are left uncashed on two consecutive occasions. However, an issuer may stop sending dividend warrants after the first occasion on which one is returned undelivered.*

Under article 196(1) of the Japan Companies Act, in cases where notices (including dividend warrants) have not reached a Shareholder for five consecutive years, our Company is no longer required to give notices to the relevant Shareholder. Instead, the Shareholder shall collect the notices (including dividend warrants) from our Company at our registered office.

We consider that the protections afforded to our Shareholders under the Japan law provisions above are comparable to those available under paragraph 13(1) of Appendix 3 to the Listing Rules.

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## WAIVERS

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### **Material interests in a transaction**

*Paragraph 14 of Appendix 3 to the Listing Rules provides that, where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or resolution shall not be counted.*

Our Articles contain no equivalent provision. Under Japan law, a company shall not amend its constitutional document to restrain or restrict its shareholders, including controlling shareholders, from voting on any particular resolution. Each Shareholder is, in general, entitled to a single vote for each Share he holds in our Company and we may not restrict this right in the circumstances provided under the Listing Rules and the Takeovers Code.

To afford our Shareholders protections comparable to those available under paragraph 14 of Appendix 3 to the Listing Rules, our Shareholders have resolved to adopt the following alternative provisions in our Articles:

“Where a transaction or arrangement or contract or other matter is required to be approved by our Shareholders under the Listing Rules and/or the Takeovers Code:

- (a) a general meeting shall be convened to seek our Shareholders’ approval of such matter;
- (b) our Hong Kong Share Registrar shall count the votes casted at the said general meeting in accordance with the criteria and requirements under the Japan Companies Act;
- (c) we shall appoint our compliance adviser or another independent financial or legal adviser to review the votes counted by our Hong Kong Share Registrar and confirm that the resolution would have been successfully passed if the votes cast had excluded the votes of our Shareholders that would otherwise be required to be abstained or otherwise uncounted under the Listing Rules and/or the Takeovers Code; and
- (d) the Shareholders’ approval referred to in item (a) above and the confirmation referred to in item (c) above shall be made conditions precedent in the relevant transaction agreement and we shall implement such matter only if both conditions have been satisfied.”

We consider that the alternative provisions in our Articles set out above will allow us to comply with (i) the abstention requirements under Rule 2.15 of the Listing Rules and other relevant requirements under the Listing Rules which specifically apply these abstention requirements; and (ii) the abstention requirements under the Takeovers Code with respect to transactions that require independent Shareholders’ approval.

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## WAIVERS

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Further details on our voluntary abstention process with regard to voting in a general meeting are set out in “Key Japan Legal and Regulatory matters – B. Shareholders’ Meetings – Material Interests in a Transaction”. Our Directors and the Sole Sponsor have confirmed that the Stock Exchange’s approach as set out in paragraphs 6.2 to 6.5 of the Country Guide is adopted. Our Company considers that the protections afforded to our Shareholders, considering the alternative provisions in our Articles in place, will be comparable to the relevant requirements under the Listing Rules.

### **Waiver**

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with paragraphs 2(2), 3(1), 4(2), 4(4), 4(5), 12 and 14 of Appendix 3 to the Listing Rules on the basis that the protections available to our Shareholders under, as the case may be, the Japan law provisions, our Articles and/or the voluntary measures adopted by us are comparable to those available under the relevant requirements under the Listing Rules on the conditions that our Directors and the Sole Sponsor have confirmed that they are of the view that:

- (a) the substantive differences between our Articles and paragraphs 2(2), 3(1), 4(2), 4(4), 4(5), 12 and 14 of Appendix 3 to the Listing Rules (given, as the case may be, the Japan law provisions, alternative provisions adopted in our Articles, and the voluntary measures put in place by us) are not material; and
- (b) the level of protections under our Articles, the Japan Companies Act and all other applicable legislations, regulations, regulatory guidance and practices in Japan taken as a whole is largely commensurate to the shareholders’ protections provided under paragraphs 2(2), 3(1), 4(2), 4(4), 4(5), 12 and 14 of Appendix 3 to the Listing Rules (given, where applicable, the voluntary measures put in place by us), and any residual difference between our Articles and Appendix 3 to the Listing Rules are prominently disclosed in this Prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This Prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Future (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters, the omission of which would make any statement herein or this Prospectus misleading.

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this Prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. Neither the delivery of this Prospectus nor any offering, sale or delivery made in connection with our Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this Prospectus or imply that the information in this Prospectus is correct as of any subsequent time.

Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering", and the procedures for applying for the Hong Kong Offer Shares are set out in "How to Apply for Hong Kong Offer Shares" and on the relevant Application Forms.

### **UNDERWRITING**

This Prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this Prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us. The Global Offering is managed by the Sole Global Coordinator.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or around the Price Determination Date, the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, see “Underwriting”.

### **RESTRICTIONS ON SALE OF OFFER SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this Prospectus and the Application Forms, and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit an offering of the Hong Kong Offer Shares or the distribution of this Prospectus and the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this Prospectus and the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus, the Application Forms and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or an exemption therefrom.

### **ELIGIBILITY FOR ADMISSION INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made to enable our Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and the permission to deal in, our Shares (i) in issue as at the date of this Prospectus; (ii) to be issued pursuant to the Global Offering; and (iii) to be issued upon exercise of the Over-allotment Option.

No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list on any other stock exchange is being or proposed to be sought in the near future.

### **SHARE REGISTRAR AND STAMP DUTY**

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company's Share Register to be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Our Shares are considered as "Hong Kong stock" for the purpose of the Stamp Duty Ordinance. Dealings in our Shares registered on our Share Register will be subject to stamp duty in Hong Kong.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing or holding of and dealing in the Offer Shares. None of our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase or holding of, or dealing in the Offer Shares.

### **LANGUAGE**

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail. If there is any inconsistency between the Japanese names of any of the entities mentioned in this Prospectus and their English and/or Chinese translations, the Japanese names shall prevail.

### **EXCHANGE RATE CONVERSION**

For the purpose of illustration only, certain amounts in this Prospectus denominated in Japanese Yen have been translated into Hong Kong dollars. No representation is made that the Japanese Yen amounts could have been, or could be, converted into Hong Kong dollars, or vice versa, at the indicated rates or at all. Unless indicated otherwise, Japanese Yen amounts have been translated into Hong Kong dollars at the rate of ¥15.15 to HK\$1.00, which was the exchange rate prevailing on 30 January 2015 (i.e. the last business day before the date of our indebtedness statement).

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Residential Address	Nationality
<b>Executive Director</b>		
Hisanori TANIGUCHI (谷口久徳) <sup>#</sup> (also known as Mr. JEONG Seonggi)	1-14-9 Kuwano Koriyama-shi Fukushima, Japan	South Korean
<b>Independent Non-executive Directors</b>		
Hiroaki MORITA (森田弘昭)	1-45-1 Oyumino Midori-ku, Chiba-shi Chiba, Japan	Japanese
Norio NAKAYAMA (中山宣男)	3369-482 Takakuotsu Nasumachi, Nasu-gun Tochigi, Japan	Japanese
Masaharu TOGO (東郷正春)	2-4-9-104 Miyamaedaira Miyamae-ku, Kawasaki-shi Kanagawa, Japan	Japanese
Hiroaki KUMAMOTO (熊本浩明)	Lions Mansion 501 3-6-8 Hakusan Bunkyo-ku Tokyo, Japan	Japanese

See “Directors and Senior Management” for further details of our Directors.



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Sponsor and Sole Global Coordinator</b>	Shenyin Wanguo Capital (H.K.) Limited Level 19 28 Hennessy Road Hong Kong
<b>Sole Bookrunner and Sole Lead Manager</b>	Shenyin Wanguo Capital (H.K.) Limited Level 19 28 Hennessy Road Hong Kong
<b>Legal Adviser to our Company</b>	<i>As to Hong Kong law:</i> Deacons 5/F Alexandra House 18 Chater Road Central Hong Kong  <i>As to Japan law:</i> Soga Law Office 2/F Yotsuya Y's Bldg 7-6 Honshiocho Shinjuku-ku, Tokyo 160-0003 Japan
<b>Legal Adviser to the Sole Sponsor and the Underwriters</b>	<i>As to Hong Kong law:</i> Paul Hastings 21/F - 22/F Bank of China Tower 1 Garden Road Central Hong Kong  <i>As to Japan law:</i> Kanagawa International Law Office 4th floor, Daisan Toranomom Denki Building 1-2-20 Toranomom, Minato-ku Tokyo 105-0001 Japan
<b>Auditor and Reporting Accountant</b>	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F, Prince's Building Central Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<b>AML Consultant</b>	PricewaterhouseCoopers Limited 22/F, Prince's Building Central Hong Kong
<b>Tax Adviser</b>	Zeirishi-Hojin PricewaterhouseCoopers* 税理士法人プライスウォーターハウスコーパース Kasumigaseki Bldg. 15/F 2-5 Kasumigaseki 3-chome Chiyoda-ku Tokyo, Japan
<b>Independent Property Valuer</b>	DTZ Debenham Tie Leung Limited 16th Floor, Jardine House 1 Connaught Place Central Hong Kong
<b>Compliance adviser</b>	Shenyin Wanguo Capital (H.K.) Limited Level 19 28 Hennessy Road Hong Kong
<b>Receiving Bank</b>	Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kowloon Hong Kong

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## CORPORATE INFORMATION

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<b>Headquarters in Japan and registered office</b>	1-1-39, Hohaccho Koriyama-shi Fukushima, Japan 963-8811
<b>Principal place of business in Hong Kong under Part 16 of the Companies Ordinance</b>	Room 505, 5th Floor Hutchison House 10 Harcourt Road Hong Kong
<b>Company website</b>	<b><u><a href="http://www.ngch.co.jp">www.ngch.co.jp</a></u></b> <i>(information on this website does not form part of this Prospectus)</i>
<b>Joint company secretaries</b>	Ms. YIU Wai Man Karen (姚慧敏) (CPA) Room 505, 5th Floor Hutchison House 10 Harcourt Road Hong Kong  Ms. NG Sau Mei (伍秀薇) (ACIS, ACS) 36/F, Tower Two Times Square 1 Matheson Street Causeway Bay, Hong Kong
<b>Authorised representatives</b>	Mr. Hiroaki KUMAMOTO (熊本浩明) Lions Mansion 501 3-6-8 Hakusan Bunkyo — ku Tokyo, Japan  Ms. YIU Wai Man Karen (姚慧敏) (CPA) Room 505, 5th Floor Hutchison House 10 Harcourt Road Hong Kong
<b>Audit Committee</b>	Mr. Hiroaki KUMAMOTO (熊本浩明) (Chairman) Mr. Hiroaki MORITA (森田弘昭) Mr. Norio NAKAYAMA (中山宣男)
<b>Remuneration Committee</b>	Mr. Norio NAKAYAMA (中山宣男) (Chairman) Mr. Hiroaki MORITA (森田弘昭) Mr. Hisanori TANIGUCHI (谷口久徳)# (also known as Mr. JEONG Seonggi)

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## CORPORATE INFORMATION

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**Nomination Committee**

Mr. Hiroaki MORITA (森田弘昭) (*Chairman*)  
Mr. Masaharu TOGO (東郷正春)  
Mr. Hisanori TANIGUCHI (谷口久徳)# (also known as  
Mr. JEONG Seonggi)

**Hong Kong Share Registrar**

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716,  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

**Principal bankers**

Mizuho Bank, Ltd.\* (株式会社みずほ銀行)  
Otemachi Tower, 1-5-5  
Otemachi  
Chiyoda-ku  
Tokyo 100-8176  
Japan

Sumitomo Mitsui Banking Corporation\*  
(株式会社三井住友銀行)  
1-1-2, Marunouchi  
Chiyoda-ku  
Tokyo  
Japan

The Toho Bank, Ltd.\* (東邦銀行)  
3-25, Ohmachi  
Fukushima 960-8041  
Japan

## INDUSTRY OVERVIEW

*This section and other sections of this Prospectus contain information and statistics relating to the Japan economy and the pachinko industry, which have been extracted and derived from various publications, including government agencies, and a commissioned report prepared by EBI. We believe the sources of the information and statistics are appropriate for such information and statistics and have taken reasonable care in extracting and reproducing them. We have no reason to believe that such information and statistics are false or misleading. No independent verification has been carried out on such information and statistics by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriter(s), or any of their affiliates or advisers, or any other party involved in the Global Offering, other than EBI with respect to the information contained in the report prepared by EBI. No representation is given as to the accuracy or completeness of such information and statistics. See “Risk Factors — Risk relating to Global Offering — Certain statistics, projected industry data and other information relating to the economy and the pachinko industry in Japan contained in this Prospectus are derived from third party market research reports or news sources and may not be reliable”.*

### OVERVIEW OF THE JAPANESE ECONOMY

#### Third Largest Economy in the World

The Japanese economy is the third largest in the world. Although Japan’s real GDP dropped by 0.5% in 2011 due to the Great East Japan Earthquake in March 2011, the Japanese economy rebounded in 2012 and real GDP grew by 1.5%. From 2014 to 2018, real GDP is expected to grow at a slower pace at 0.8% to 0.9% due to the consumption tax hike from 5% to 8% in April 2014 and the recent recession of the Japanese economy. The table below shows certain economic data with respect to Japan for the indicated dates and years:

	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	CAGR	
											2009 - 2013	2014E - 2018E
Total population of Japan as at 31 December (thousands)	125,820	126,382	126,180	125,957	125,704	125,450	125,220	125,000	124,770	124,550	0.0%	-0.2%
Total real GDP of Japan (¥ billion)	489,588	512,364	510,045	517,514	525,366	530,047	534,425	538,934	543,843	548,852	1.8%	0.9%
Growth rate of the total real GDP of Japan (%)		4.7%	-0.5%	1.5%	1.5%	0.9%	0.8%	0.8%	0.9%	0.9%		

Source: International Monetary Fund, Japan Statistics Bureau and EBI

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## INDUSTRY OVERVIEW

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### Disposable Income and Consumption Expenditure

From 2009 to 2013, monthly disposable income and consumption expenditure per household remained relatively stable and culture and recreation activities (such as pachinko) accounted for 9.7% of monthly consumption expenditure per household in 2013. As a recreation activity, pachinko players rely on household disposable income levels, which in turn, are affected by employment rates, taxes and the general state of the economy. When household disposable income level rises, people are then capable of spending more on discretionary services, driving up pachinko gross pay-ins. Conversely, consumers may defer or reduce visits to pachinko halls when they have lower disposable income. The table below shows the monthly disposable income and the consumption expenditure per household for the indicated years:

	2009	2010	2011	2012	2013	CAGR 2009 - 2013
<b>Monthly disposable income per household (¥) . . . . .</b>	<b>427,900</b>	<b>430,000</b>	<b>420,500</b>	<b>425,000</b>	<b>426,100</b>	<b>-0.1%</b>
Growth rate of monthly disposable income per household (%) . . . . .		0.5%	-2.2%	1.1%	0.3%	N/A
<b>Monthly consumption expenditure per household (¥) . . . . .</b>	<b>319,100</b>	<b>318,300</b>	<b>308,800</b>	<b>313,900</b>	<b>319,170</b>	<b>0.0%</b>
Growth rate of monthly consumption expenditure per household (%) . . . . .		-0.35	-3.0%	1.7%	1.7%	N/A

Source: Japan Statistics Bureau

### Northeast Honshu (本州島東北)

As at the Latest Practicable Date, our Group operated pachinko halls in ten prefectures of Northeast Honshu (本州島東北), Japan, namely: (1) in the Tōhoku Region (東北地方): Fukushima Prefecture (福島県), Miyagi Prefecture (宮城県) and Yamagata Prefecture (山形県); (2) in the Kantō Region (関東地方): Tokyo (東京都), Ibaraki Prefecture (茨城県), Gunma Prefecture (群馬県), Kanagawa Prefecture (神奈川県), Tochigi Prefecture (栃木県) and Saitama Prefecture (埼玉県); and (3) in the Chūbu Region (中部地方): Niigata Prefecture (新潟県). These ten prefectures had a total population of 47.4 million as at 31 December 2013 and real GDP of ¥202.9 trillion in 2013, representing 37.7% and 38.6% of the country's population as at 31 December 2013 and real GDP

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## INDUSTRY OVERVIEW

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in 2013, respectively. The table below shows certain economic data with respect to the ten prefectures for the indicated dates and periods:

	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	CAGR	
											2009 - 2013	2014E - 2018E
<b>Total population of the ten prefectures as at 31 December (thousands) . . . . .</b>	<b>46,906</b>	<b>47,395</b>	<b>47,367</b>	<b>47,358</b>	<b>47,380</b>	<b>47,384</b>	<b>47,389</b>	<b>47,376</b>	<b>47,360</b>	<b>47,352</b>	<b>0.3%</b>	<b>0.0%</b>
Percentage of total population of the ten prefectures out of that of Japan (%) . . . . .	37.3	37.5	37.5	37.6	37.7	37.8	37.8	37.9	38.0	38.0	N/A	N/A
<b>Total real GDP of the ten prefectures (¥ billion) . . . . .</b>	<b>194,571</b>	<b>195,846</b>	<b>196,528</b>	<b>199,395</b>	<b>202,918</b>	<b>203,836</b>	<b>206,042</b>	<b>208,810</b>	<b>212,231</b>	<b>216,697</b>	<b>1.1%</b>	<b>1.5%</b>
Growth rate of the total real GDP of the ten prefectures (%) . . . . .		0.7	0.3	1.5	1.8	0.5	1.1	1.3	1.6	2.1	N/A	N/A

*Source: Japan Statistics Bureau and EBI*

### THE PACHINKO INDUSTRY IN JAPAN

#### History and Development of the Pachinko Industry

Pachinko is one of the most popular forms of entertainment for adults in Japan. Pachinko machines first appeared in Japan in the early twentieth century. Pachinko halls were closed down during World War II and did not reemerge in the entertainment industry until the late 1940s. In that era, pachinko machines were mechanical devices with simple designs consisting of bells and flashlights, which remained largely unchanged through the 1970s. It was not until the 1980s that video and sound features were integrated into the design of pachinko machines. The first slot machine in history was invented in late nineteenth century in the United States. A few decades later, adapted and further developed by a game console maker, pachislot machines were introduced in Okinawa, Japan, and were named “Olympia machine” as its debut coincided with the Tokyo Olympics in 1964. While the configuration and method of play remains simple — matching pictures on spinning reels in the playing field by pressing the stop buttons, machines are now controlled by computer chips.

Nowadays, pachinko and pachislot machines are equipped with computer chips, stereo sound systems and advanced liquid crystal display video screens that display enriched content, such as popular animation, drama characters and various celebrities, and enhance the playing experience for the customer.

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## INDUSTRY OVERVIEW

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The playing cost for pachinko and pachislot was ¥4 and ¥20 per ball or token (before consumption tax), until ¥1 pachinko and ¥5 pachislot (before consumption tax) were introduced in 2006 and 2008, respectively. The playing cost was further reduced to ¥0.5 pachinko and ¥2 pachislot (before consumption tax) in the subsequent years. Low playing cost pachinko and pachislot reduce the gaming features and enhance the entertainment value of pachinko and pachislot as they enable a lower participation cost and allow players to play longer at the same playing cost. Low playing cost pachinko and pachislot were introduced to address the demand of pachinko players for entertainment.

The pachinko industry is under the close supervision of the Japanese government, and rules and regulations have been introduced to control its gaming features. There are strict rules under the Amusement Business Law and its subordinate regulations and also the Enforcement Ordinance governing (among others) the licensing of hall operators, payout ratios and technical specifications of machines. For a further description of these laws and regulations, see “Applicable Laws and Regulations”. In addition, pachinko operators have voluntarily formed self-governing associations to invite comments and feedback from the general public, to support efforts to prevent addiction to gaming, and to generally promote the pachinko industry.

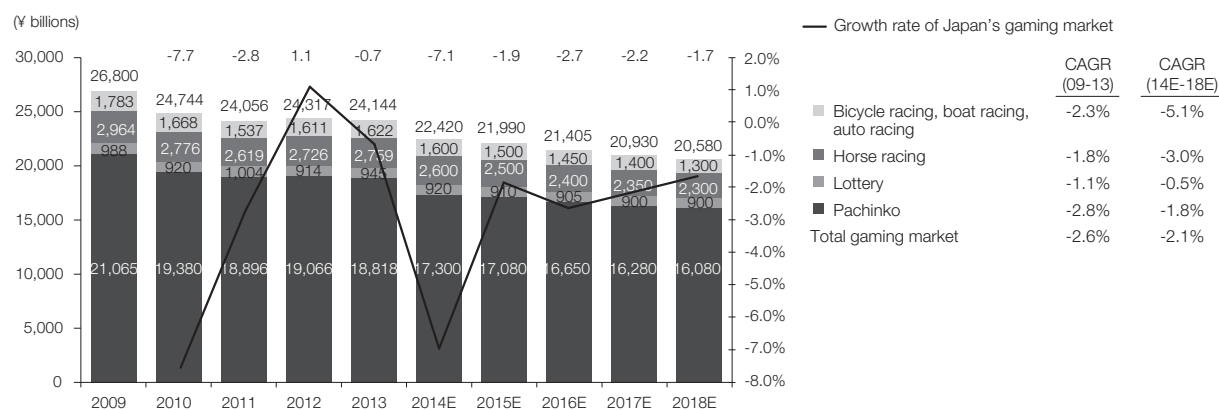
According to EBI, the introduction of legislation reducing the size of jackpots contributed to the decline of gross pay-ins since the early 2000’s. For example, current laws and regulations restrict the number of pachinko balls that the machine may pay out to between 0.5 to 2.0 times the number of balls put into play over a continuous 10-hour period and they restrict the number of pachislot tokens that the machine may pay out to between 0.55 to 1.2 times the number of tokens played during the course of 17,500 consecutive plays. Players that are more attracted to the chance element of the game (to win a larger amount of prizes) may seek other forms of gaming while players that are more attracted to the entertainment aspect of the game remain. There are various key factors that potentially affect the profitability of a hall operator, including the scale of operations, payout ratio, mix of machines and G-prize mark-ups. In response to this shift in customer demand, hall operators’ business strategies have been to maximise their revenue from pachinko and pachislot hall operation revenue by (i) building larger halls to create an inviting hall environment for the entertainment element rather than the chance element; (ii) promoting low playing cost games; (iii) maintaining gross payouts at commercially viable levels; and (iv) constant update on new machine models. Nevertheless, the pachinko industry remains hugely popular in Japan as the game offer players to win prizes for cash with an element of chance, skill and entertainment.



## INDUSTRY OVERVIEW

### Largest Contributor to Japan's Gaming Market

The pachinko industry has dominated the gaming sector in Japan, which consists of pachinko, bicycle-racing, boat-racing, auto-racing, horse-racing and lottery. According to EBI, the pachinko industry, in terms of gross revenue, represented 78.0% or ¥18.8 trillion of the general gaming market in Japan in 2013 and was the largest gaming segment. According to EBI, pachinko and pachislot players that are attracted to the chance element of the game (to win a larger amount of prizes), overlap with the participants of public racing, namely, horse-racing, bicycle-racing, boat-racing and auto-racing. Potential pachinko and pachislot players in prefectures with less public racing options are more likely to choose pachinko and pachislot as their form of entertainment. Tokyo (東京都) and prefectures around Tokyo (東京都) have more options of entertainment (including public racing) and as a result hall operators in these prefectures face more competition. On the other hand, Fukushima Prefecture (福島県) and nearby prefectures have less options of entertainment (including public racing) and as a result hall operators in these prefectures face less competition. The diagram below shows Japan's gaming market in terms of gross revenue (meaning gross pay-ins for pachinko industry) by industry:



Source: Leisure White Paper 2014 by the Japan Productivity Centre and EBI

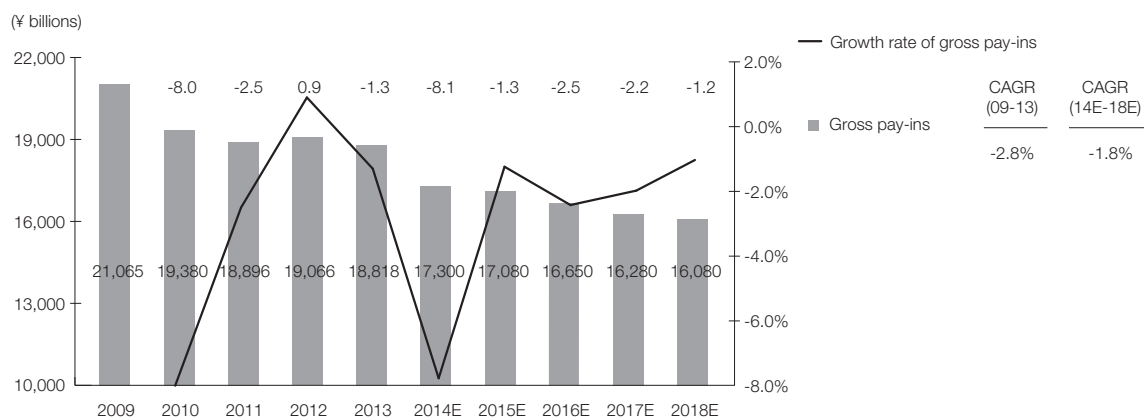
### Key Trends of the Pachinko Industry in Japan

#### Declining gross pay-ins

According to EBI, gross pay-ins of the pachinko industry has been declining since early 2000s, due in part to the introduction of legislation reducing the size of jackpots and in part to the competition from other forms of entertainment such as video games, the internet and other mobile entertainment services. Players that are attracted to the chance element of the game (to win a larger amount of prizes) may seek other forms of gaming while players that are more attracted to the entertainment aspect of the game remain. As a result, according to EBI, the

## INDUSTRY OVERVIEW

pachinko industry is expected to continue to decline from 2014 to 2018 with total gross pay-ins declining from approximately ¥17.3 trillion in 2014 to approximately ¥16.1 trillion in 2018.



Source: Leisure White Paper 2014 by the Japan Productivity Centre and EBI

### Growing dominance of large operators

According to EBI, the declining gross pay-ins of the pachinko industry drives hall operators to enhance their efficiency in order to remain profitable under the same cost structure. This situation is particularly favourable to larger hall operators (that operate at least ten halls) as their fixed overhead costs can be shared over a larger amount of operations. Smaller hall operators (that operate less than ten halls) have been gradually pushed out of the market. Therefore, according to EBI, the number of halls across the pachinko industry is expected to shrink. However, due to the growing dominance of larger hall operators, the average number of halls operated by each hall operator is expected to increase.

	Number of operators as at 31 December																				
	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E											
	%	%	%	%	%	%	%	%	%	%											
<b>Small operators</b>																					
1-2 halls . . . . .	3,204	74.5%	3,031	73.8%	2,949	73.4%	2,919	73.4%	2,771	72.6%	2,680	72.1%	2,622	72.2%	2,572	72.0%	2,487	71.6%	2,400	71.0%	
3-4 halls . . . . .	579	13.5%	576	14.0%	568	14.1%	557	14.0%	562	14.7%	555	14.9%	547	15.1%	538	15.1%	528	15.2%	520	15.4%	
5-9 halls . . . . .	363	8.4%	350	8.5%	343	8.5%	337	8.5%	323	8.5%	318	8.6%	295	8.1%	285	8.0%	280	8.1%	275	8.1%	
<b>Large operators</b>																					
10-14 halls . . . . .	74	1.7%	69	1.7%	71	1.8%	73	1.8%	73	1.9%	74	2.0%	75	2.1%	77	2.2%	78	2.2%	78	2.3%	
15-19 halls . . . . .	41	1.0%	37	0.9%	35	0.9%	41	1.0%	40	1.0%	41	1.1%	42	1.2%	44	1.2%	46	1.3%	48	1.4%	
Over 20 halls . . . . .	42	0.9%	46	1.1%	51	1.3%	48	1.3%	49	1.3%	51	1.3%	53	1.3%	55	1.5%	56	1.6%	58	1.8%	
<b>Total . . . . .</b>	<b>4,303</b>	<b>100.0%</b>	<b>4,109</b>	<b>100.0%</b>	<b>4,017</b>	<b>100.0%</b>	<b>3,975</b>	<b>100.0%</b>	<b>3,818</b>	<b>100.0%</b>	<b>3,719</b>	<b>100.0%</b>	<b>3,634</b>	<b>100.0%</b>	<b>3,571</b>	<b>100.0%</b>	<b>3,475</b>	<b>100.0%</b>	<b>3,379</b>	<b>100.0%</b>	
Average number of halls operated by a hall operator . . . . .	2.9		3.0		3.1		3.1		3.1		3.1		3.1		3.1		3.1		3.1		3.2

Source: National Police Agency, Daikoku Denki Co., Ltd. and EBI

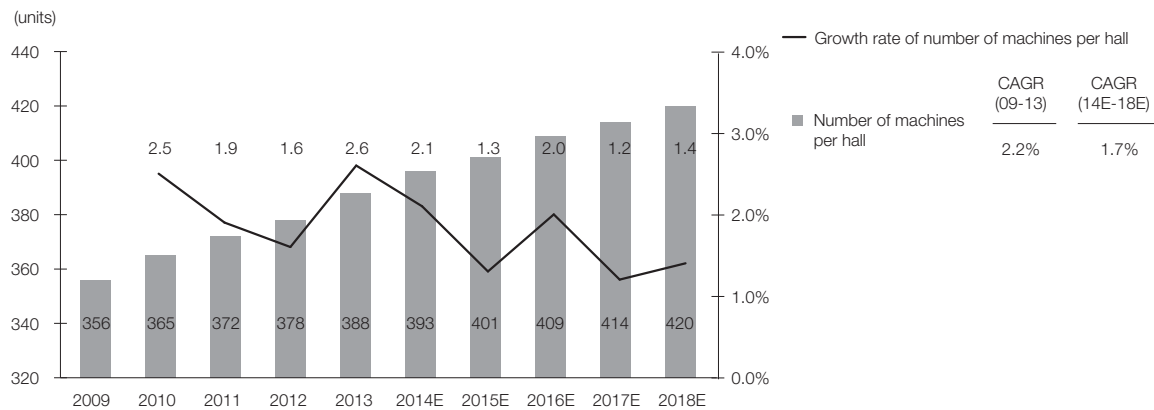
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## INDUSTRY OVERVIEW

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### **Size of pachinko halls**

According to EBI, as well as the increase in average number of halls operated by each hall operator, the average number of machines per hall has been increasing in recent years, from approximately 356 machines per hall in 2009 to approximately 388 in 2013. Larger pachinko halls allow hall operators to reduce hall overheads per machine and pachinko players are more attracted to larger halls due to their (1) grand outlook; (2) increased choice of machines; and (3) spacious halls are perceived to be more welcoming for pachinko players which create customer stickiness to the particular hall. This trend is expected to continue in the next few years and the average number of machines per hall in 2018 will be approximately 420.



Source: National Police Agency, Daikoku Denki Co., Ltd. and EBI

### **Introduction of low playing cost pachinko and pachislot machines**

According to EBI, due to the shift in customer's demand to focus more on the entertainment aspect of pachinko and pachislot, low playing cost games have been introduced since 2006. Low playing cost pachinko and pachislot enhances the entertainment value of pachinko and pachislot as they enable lower participation cost and allow players to play longer for the same playing cost. As the factor of winning large amounts of prizes become less significant for these players, hall operators have the flexibility to maintain their machines at lower payout ratio without losing the players. According to EBI, hall operators manage gross payouts by maintaining the (i) pins and settings of machines with full compliance under the Amusement Business Law and the Enforcement Ordinance; (ii) proportion of machines according to playing cost and jackpot probability; and (iii) G-prize and general prize mark-ups. As a result, revenue margin of pachinko halls has been increasing to enable hall operators to maximise their revenue.

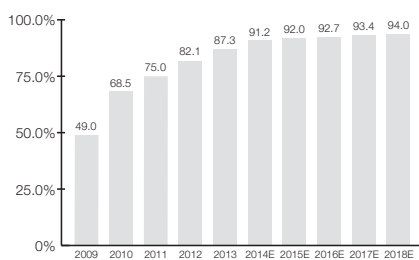
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## INDUSTRY OVERVIEW

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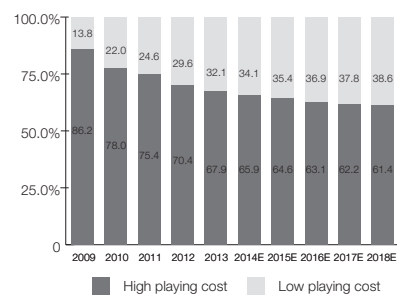
Since the introduction of low playing cost pachinko machines in 2006, the number of pachinko halls equipped with these low playing cost machines has increased steadily. According to EBI, the number of pachinko halls with low playing cost machines increased from 6,199 in 2009 to 10,383 in 2013, representing a CAGR of approximately 13.8%. It is expected that the number of halls equipped with low playing cost machines and that the proportion of low playing cost machines will also increase. The below two diagrams show the percentage of pachinko halls with low playing cost machines and the percentage of low playing machines in the market as at 31 December for the indicated years:

**Percentage of halls with low playing cost machines in Japan**



Source: EBI

**Mix of low and high playing cost machines in Japan**



Source: National Police Agency, Daikoku Denki Co., Ltd. and EBI

### Pachinko and Pachislot Players

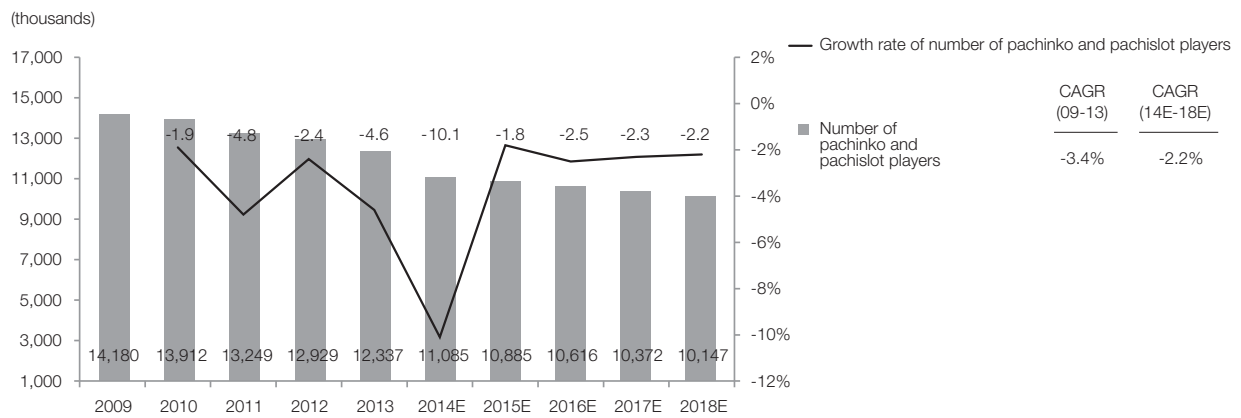
According to EBI, the number of pachinko players is expected to continue decreasing to approximately 10.1 million in 2018. As a result of the increase in consumption tax from 5% to 8% from April 2014 onwards, the player population is expected to experience a more severe drop of 10.1% for the whole year of 2014. The projected stability in pachinko players is anticipated to be largely supported by pachinko players focused on the entertainment aspects of the game who remain playing under certain circumstances, such as favourable hall environment, lower playing

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## INDUSTRY OVERVIEW

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costs or new machine titles. The chart below shows the number of pachinko players for the indicated years:



Source: National Police Agency and EBI

### **Profile of pachinko and pachislot players**

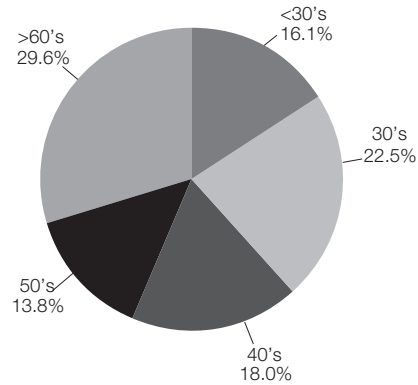
Our halls can be categorised into suburban halls and urban halls. Suburban halls are typically located in the suburbs (areas with relatively low population density, such as the suburbs of Fukushima Prefecture (福島県)), require car access and provide parking spaces. Customers are usually the self-employed (such as farmers and fishermen), factory workers and pensioners, and peak hours are typically from noon to 5 p.m.. Suburban halls generally have stable player traffic on weekdays and weekends. Urban halls are typically located in urban areas (areas with relatively high population density, such as Tokyo (東京都)) and within walking distance of a train station. Customers are usually full-time employees and peak hours are typically from 5 p.m. to 10 p.m. and day time for weekdays and weekends, respectively.

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## INDUSTRY OVERVIEW

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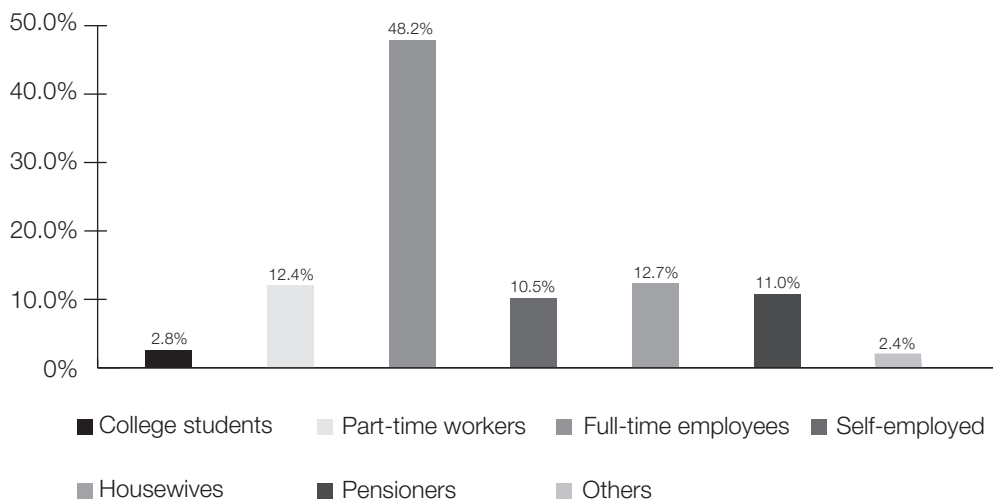
According to EBI, in 2013 approximately 70% of pachinko and pachislot players are male. The majority of pachinko and pachislot players were from the age group of above 60 and 30's, representing 29.6% and 22.5% of the entire pachinko player population, respectively. The diagram below shows breakdowns of pachinko and pachislot players in 2013 by age groups.




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Source: Japan Statistics Bureau and EBI

According to EBI, the highest concentration of pachinko and pachislot players in terms of occupation were full-time employees and housewives who represented 48.2% and 12.7% of the relevant players, respectively. The diagram below shows breakdowns of pachinko and pachislot players in 2013 by occupation:




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Source: EBI

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## INDUSTRY OVERVIEW

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### **Industry Outlook for Suburban and Urban Pachinko Halls**

According to EBI, there is no correlation between customers of suburban halls or urban halls with: (i) the chance or the entertainment element of pachinko and pachislot; and (ii) the low playing cost machines or high playing cost machines. However, players that prefer low playing cost machines are generally more attracted to the entertainment element of pachinko and pachislot, which means they are less sensitive to movements in payout ratio and are more prepared to accept a lower payout ratio. On the other hand, players that prefer high playing cost machines are generally more attracted to the chance element of pachinko and pachislot (to win a larger amount of prizes), which means they are more sensitive to payout ratios and are more prepared to accept a higher payout ratio.

#### ***Suburban pachinko halls***

According to EBI, despite the declining gross pay-ins of the pachinko industry, industry outlook for suburban pachinko halls is expected to be relatively more stable. Investments in suburban pachinko halls are expected to benefit from the following factors: (1) land costs (whether for acquisitions or leases) in suburban areas are relatively lower than urban areas, allowing pachinko operators to open larger halls which are usually more attractive to customers; (2) there are significantly less gaming and entertainment options (such as cinemas, public racing and nightlife entertainment) available in suburban areas than urban areas which means relatively lower competition for suburban pachinko halls; (3) the customer base in suburban areas is generally more stable as customers are typically self-employed (such as farmers and fishermen), factory workers and retirees, who usually reside in the surrounding areas, while customers in urban areas are typically full-time office employees, who have more choices in hall selection as halls in urban areas are usually in close proximity to each other; and (4) companies in Japan are increasingly looking to build industrial parks in less populated areas of Japan (such as suburban areas), mainly because there is sufficient land to construct larger buildings with ample parking space, which is expected to increase the working population in these suburban areas.

#### ***Urban pachinko halls***

According to EBI, the industry outlook for urban pachinko halls is expected to not as positive as that of suburban pachinko halls. Urban pachinko halls (especially halls in Tokyo (東京都) and nearby prefectures) face more competition from other options of entertainment (such as cinemas, public racing and nightlife entertainment) than suburban pachinko halls. As a result of close proximity to each other, urban pachinko halls competing fiercely for market share are forced to incur expenses to differentiate themselves from their competitors, for example: (1) frequent updates of machine models (depending upon the operator's ability to secure the latest machine model from suppliers); and (2) refurbishment of urban pachinko halls in order to project a more pleasant gaming experience for customers. The result is a greater likelihood of higher costs which may lead to declining profits. In addition, the initial investment cost for urban pachinko halls (especially urban areas in Tokyo (東京都)) is usually larger due to high land costs (whether for acquisitions or leases). Therefore, investments in urban pachinko halls require a greater substantial capital outlay.

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## INDUSTRY OVERVIEW

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### COMPETITIVE ANALYSIS OF THE PACHINKO INDUSTRY IN JAPAN

#### Competitive Landscape

The pachinko industry in Japan is highly fragmented with over 3,800 operators as at 31 December 2013. According to EBI, the aggregate gross pay-ins recorded in 2013 by the top five and top ten hall operators, accounted for about 20.5% and 25.8% of the entire market, respectively, while the aggregate number of halls operated by these top five and top ten operators merely represented approximately 7.9% and 9.7% of the total 11,893 halls, respectively, as at 31 December 2013. As at 31 December 2013, there were only eight hall operators that operated over 50 halls.

**Summary of the top ten pachinko operators in 2013**

Ranking by total gross pay-ins	Hall operator	Approximate % of total gross pay-ins	Number of halls as at 31 December	Approximate % of total number of halls in Japan as at 31 December	Approximate % of total number of machines in Japan as at 31 December
1	A	11.2%	299	2.5%	4.3%
2	B	4.9%	366	3.1%	3.6%
3	C	1.9%	180	1.5%	2.0%
4	Our Group	1.3%	54	0.5%	0.6%
5	D	1.2%	38	0.3%	0.5%
6	E	1.2%	67	0.6%	0.9%
7	F	1.2%	52	0.4%	0.7%
8	G	1.1%	42	0.4%	0.5%
9	H	1.0%	29	0.2%	0.6%
10	I	0.8%	28	0.2%	0.3%
<b>Total</b>		<b>25.8%</b>	<b>1,155</b>	<b>9.7%</b>	<b>14.0%</b>

**Summary of the top five pachinko operators as at 31 December 2013 in the Fukushima Prefecture (福島県)**

Ranking by number of halls	Hall operator	Number of halls in operation	Approximate % of total number of halls	Approximate % of total number of machines
1	Our Group	20	9.3%	13.8%
=2	J	11	5.1%	6.4%
=2	K	11	5.1%	6.2%
4	L	10	4.6%	6.9%
5	M	5	2.3%	3.3%
		<b>57</b>	<b>26.4%</b>	<b>36.6%</b>

Source: EBI

According to EBI, as at 31 December 2013, over 95% of hall operators manage 10 halls or less and only 4.2% of hall operators manage ten halls or more. The average number of halls operated per hall operator remained at approximately three. The fragmented pachinko industry continues to experience a trend where smaller operators being put out of business by large competitors with greater financial, staff and other necessary resources and operational experience.



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## INDUSTRY OVERVIEW

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### Entry Barriers to the Pachinko Industry

- **Size of operation.** According to EBI, due to the size of their operation, small hall operators (that operate less than ten halls) have been gradually pushed out of the market. Larger operators, in particular national and regional players, generally have the (i) priority over smaller hall operators for purchases of new machines where stock is limited; (ii) financial strength to build larger pachinko halls with increased number of machines to provide a more spacious and inviting hall environment to create customer stickiness; (iii) ability to source general prize in bulk for a discount; and (iv) effective internal controls and procedures that help ensure their compliance with applicable laws and regulations, as well as detect and prevent fraud, cheating and money laundering activities.
- **Pachinko hall business licence (“Operating Licence”).** A pachinko hall business is considered an “amusement business” under the Amusement Business Law and other relevant laws, regulations, and prefectural ordinances. Under the Amusement Business Law, a hall operator must, prior to establishing each pachinko hall, obtain an Operating Licence from the relevant Prefectural Public Safety Commission\* (都道府県公安委員会). New entrants are not allowed to carry out pachinko hall operations business without an Operating Licence. See “Applicable Laws and Regulations”.
- **Business networks with suppliers.** According to the EBI, business networks with suppliers such as general prize suppliers, machine suppliers and pachinko ball and pachislot token suppliers are necessary for a pachinko hall operator to carry out its operations. Due to the fragmented nature of the pachinko hall operating industry in Japan, new entrants may not have access to these business networks at commercially viable costs for effective operation.

### Opportunities

- **Industry consolidation.** Despite the gross pay-ins of the pachinko industry has been on a downward trend since early 2000’s, the industry still remains to be economically favourable to the leading national and regional hall operators, according to EBI. As the pachinko industry develops, small hall operators (with less than ten halls in their network) are expected to be eliminated. Leading national and regional hall operators (with at least ten halls in their network) remaining in the market are expected to absorb the market share and to continue to grow their operations as a result, according to EBI.
- **Online general prize redemption system.** By collaborating with major online shopping vendors, an online general prize redemption system could be implemented to allow carried over balls to be exchanged to general prizes via the internet. Hall operators are able to (i) expand the selection range of general prizes; and (ii) strategically communicate with potential pachinko and pachislot players regarding new general prizes via the internet. We believe that this new services will attract new players and also increase the return rate of existing customers to pachinko halls.

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## INDUSTRY OVERVIEW

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- **Low playing cost games.** As the low playing cost games are considered to be more entertainment oriented, low playing cost games may attract broader customer base, such as players of the retirement age group and players new to pachinko, which may offset the lower revenue generated by these low playing cost pachinko and pachislot games. Furthermore, as players of the low playing cost games play for entertainment value instead of for winnings, the pachinko operator can generally offer a slightly lower payout ratio on the low playing cost games than for the traditional high playing cost games.

### Threats

- **Change in policies and regulations relating to the pachinko industry.** Policies and regulations implemented by the Japanese government relating to the pachinko industry may significantly affect customer demand and behaviour as well as the various operating metrics that impact the results of pachinko hall operators. For example, the introduction of legislation reducing the size of jackpots had contributed to the decline of gross pay-ins, which adversely impacted the operating results of pachinko hall operators across the industry.

The Diet was previously examining a bill legalising the operations of casinos in Japan in 2014, though, as advised by our Japan Legal Adviser, the bill has since been discarded. In any case, if casino operations are eventually legalised, pachinko operators may also face competition from casinos, which may have a negative impact on the pachinko industry. In addition, there have been discussions about the introduction of a pachinko tax, although no legislative process has taken place yet. However, if such additional tax is indeed imposed, the pachinko industry as a whole may be negatively impacted. However, such casino legalisation and tax may catalyse the closure of smaller pachinko operators due to their weaker financial strength, while larger pachinko operators are more likely to absorb the freed up market share as a result.

- **Consumption tax hike.** Consumption tax rate in Japan rose from 5% to 8% in April 2014. According to EBI, the pachinko and pachislot players have comparatively low income, and are considered to be price sensitive. Therefore, further increase in consumption tax rate is likely to bring negative impact to hall operators' profit as a result of the decrease in spending power of the pachinko and pachislot players.
- **Rising costs.** According to EBI, the top three expenses of hall operations are pachinko and pachislot machine expenses, hall staff costs and advertising expenses. These costs, in particular the pachinko and pachislot machine expenses, have been rising steadily over recent years. High machine costs have become one of the major challenges to hall operators.

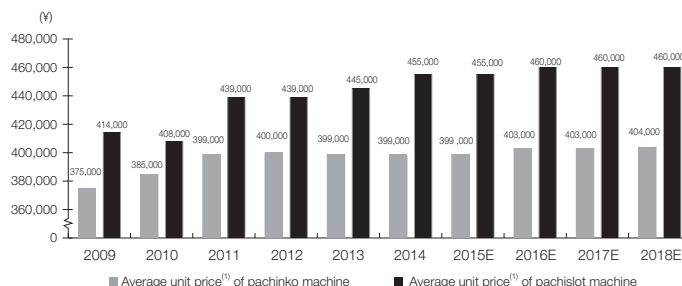
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## INDUSTRY OVERVIEW

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### PRICE TREND OF PACHINKO AND PACHISLOT MACHINES

The diagram below shows the average unit price of pachinko machine and pachislot machine for the years indicated:



- (1) The average unit price was calculated based on the amount of sales divided by the number of the top selling machines sold for the year indicated.

Source: EBI

According to EBI, generally, the amount spent on pachinko and pachislot machine accounts for more than 25% of the operating expenses of the hall operator due to the significant costs for the machine purchase as well as the necessity for the frequent replacement of machines. According to EBI, prices of pachinko and pachislot machines are generally affected by the demand and supply of the machine models coupled with the costs of the relevant machines. The average unit price of the pachinko and pachislot machines are expected to increase from approximately ¥399,000 and ¥455,000 in 2014, respectively, to approximately ¥404,000 and ¥460,000 in 2018, respectively, as a result of rising costs of machine components.

### SOURCES OF INFORMATION

In connection with the Listing, we have commissioned a research report from EBI for use in part in this Prospectus to provide prospective investors with necessary information on the economy of Japan, the industry and market segments in which we operate and our competitive position, including forward-looking information. The total fee we paid for their report was ¥3,500,000. EBI is a private market research company in Japan founded in 1992 that provides market intelligence and consulting services specialising in the gaming industry. EBI performs research and publishes annual reports as well as other learning materials on the pachinko industry. In preparing their report, EBI collects and reviews publicly available data such as government-derived information, annual reports and industry association statistics. EBI has advised us that it has exercised due care in collecting and reviewing the information collected and believes that the basic assumptions contained therein are factual and correct, and that the interpretations are reasonable. EBI has advised us that it has independently analysed the information collected, but that the accuracy of the conclusions of its review largely depends upon the accuracy of the information collected. In compiling and preparing their report, EBI assumed that (i) Japan's social, economic and political environment is likely to remain stable and (ii) key industry trends are likely to continue to affect the market over the forecast period from 2014 to

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## **INDUSTRY OVERVIEW**

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2018. For the projection of total market size and number of pachinko players, EBI plotted available historical data against macroeconomic data as well as data with respect to related industry trends. The projections and data relating to the future periods in this section were extracted from EBI's report. The Directors and the Sole Sponsor believe such projections and data to be reliable and not misleading on the basis that EBI is an independent professional research agency with extensive experience in their profession.

### **NO MATERIAL ADVERSE CHANGE**

As of the Latest Practicable Date, the Directors, after reasonable consideration, confirm that they were not aware of any adverse change to the market information since the date of the EBI report which may qualify, contradict or have an impact on the information in this section.

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## APPLICABLE LAWS AND REGULATIONS

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This section summarises the most significant aspects of the Japan laws and regulations that are material to our business.

### A. GENERAL OVERVIEW OF THE JAPAN LEGAL SYSTEM

#### 1. Primary Features

The Japanese legal system has the following key features:

- **Hybrid civil law system.** The Japan legal system is a hybrid civil law system with characteristics of both: (1) civil law systems, such as the French and German civil legal systems; and (2) common law systems, such as the Hong Kong and United States legal systems.
- **Criminal prosecution.** Any act, including our operations under the Three Party System, shall not be subject to criminal prosecution unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the applicable statutory provisions.
- **Court rulings.** Although court rulings have a *de facto* binding effect on inferior courts, they do not modify existing law nor do they create new law. Laws can only be adopted or modified through the legislative process. Further, court rulings, similar to court rulings in other civil and common law systems elsewhere, may be overturned by laws and regulations and/or amendments to existing laws and regulations enacted or adopted by legislative or executive authorities.
- **Supreme Court (最高裁判所).** The highest court is the Supreme Court (最高裁判所).

#### 2. Historical Background

The early modernisation of the Japan legal system in the mid-19th century to the early-20th century was primarily influenced by the German and French codes, which are civil law codes that served as models for the major Japanese codes such as the Civil Code.

After the Second World War, some laws in Japan such as the Constitution of Japan (日本国憲法), criminal procedure laws and labour laws were amended or replaced using principles from United States law, which is based on the common law. Therefore, the Japan legal system is a hybrid of the civil law system and the common law system, and has evolved substantially and independently in accordance with the Japan legal culture.

The distinction between common law and civil law mainly lies in the precedential value of case law. In a common law legal system, judicial decisions of superior courts have precedential value in later court decisions and form part of the common law, along with laws and regulations enacted or adopted by the legislative and executive branches of government. As a result, judges in a common law system have a substantial role in shaping the law.

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## APPLICABLE LAWS AND REGULATIONS

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In contrast, a civil law system tends to be a codified body of broad and general principles. The judge's role is to establish the facts of the case and to apply the provisions of the applicable code. Judicial decisions are consequently less crucial in the development of the law.

### 3. Constitution

Japan's current legal system was established by the Constitution of Japan (日本国憲法), promulgated on 3 November 1946 after the Second World War. The Constitution of Japan (日本国憲法) provides for the separation of the legislative, judicial and executive powers.

The Constitution of Japan (日本国憲法) establishes a parliamentary system of government, where the legislative authority is vested in the Diet. The executive authority is exercised by the Prime Minister and the Cabinet of Japan\* (内閣) who are answerable to the legislature; and the judiciary is headed by the Supreme Court (最高裁判所).

### 4. Source of Law and Legislative Process

The sources of Japan law include the Constitution of Japan (日本国憲法), treaties and international agreements, acts, cabinet orders, ministerial ordinances and ministerial notifications.

Under Article 98 of the Constitution of Japan (日本国憲法), the Constitution of Japan (日本国憲法) is the supreme law of the nation and no law, ordinance, imperial rescript or other act of government, or part thereof, contrary to the provisions hereof, shall have legal force or validity.

Under Article 41 of the Constitution of Japan (日本国憲法), the Diet is the highest organ of state power and the sole law-making body. The Diet is made up of two houses, namely the House of Representatives (衆議院) and the House of Councillors (参議院). Under the Japanese legislative process, most draft bills come from the bureaucrat and are then submitted to the Diet through the Cabinet of Japan\* (内閣). To become law, a bill must pass both houses of the Diet. Japan law comprises written laws that fit into a certain hierarchy, headed by the Constitution of Japan (日本国憲法). Statutes are often sorted by subject matter into substantive and procedural laws. The Cabinet of Japan\* (内閣) and each Ministry may make subordinate regulations such as Cabinet Orders, Ministry Ordinances and Ministry Notifications based upon delegation from the Diet.

### 5. Judiciary

Under the Constitution of Japan (日本国憲法), the Supreme Court (最高裁判所) is the highest court in the nation exercising appellate jurisdiction. The high courts are appellate courts primarily hearing appeals from district courts or family courts. The district courts are primarily courts of general and first-instance jurisdiction handling all cases. The summary courts have original jurisdiction over civil cases involving claims not exceeding ¥900,000 and minor criminal offences.

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The Supreme Court (最高裁判所) is only able to overturn its own interpretation of a law through the full Supreme Court (最高裁判所). If a lower court's judgment does not follow the judgment rendered by the Supreme Court (最高裁判所), the decision may be appealed. Therefore, although Japan does not strictly speaking adopt the common law system (as is the case in Hong Kong) the Supreme Court's (最高裁判所) judgments have a *de facto* binding effect on any court in subsequent cases.

### **6. Choice of Law (Act on General Rules for Application of Law) (法の適用に関する通則法) of Japan (Act No. 78 of 2006)**

The rules for choice of law, which will be taken by Japanese courts as international private law, is mainly governed by the Act on General Rules for Application of Laws. (法の適用に関する通則法) of Japan (Act No. 78 of 2006)

The formation and effect of a juridical act, including without limitation contracts, shall be governed by the law of the place chosen by the parties. In the absence of such choice, the formation and effect of a juridical act shall be governed by the law of the place with which the act is most closely connected at the time of the act. In such case, if only one of the parties to a contract is to provide performance involved in a juridical act, the law of the habitual residence of the party providing such performance shall be presumed to be the law of the place with which the act is most closely connected. In cases where the party has a place of business connected with the juridical act, this will be the law of the place of business. In cases where the party has two or more such places of business which are connected with the juridical act and which are governed by different laws, this will be the law of the principal place of business. The parties may change the governing law otherwise applicable to the formation and effect of a juridical act; provided, however, that if such change prejudices the rights of a third party, it may not be asserted against the third party.

### **7. Penal Code and the Code of Criminal Procedures (刑事訴訟法) of Japan (Act No. 131 of 1948)**

Crimes in Japan are mainly enumerated in the Penal Code, which provides the elements of different types of crimes and the penalties for different types of crimes. The Penal Code sets out the minimum and maximum sentences for offences. Penalties range from fines and short-term incarceration to compulsory labour and the death penalty.

Under Article 31 of the Constitution of Japan (日本国憲法), the requirements for constituting a crime under the Penal Code and any other criminal laws shall be construed strictly in accordance with the specific provisions contained in these laws. Any interpretations that rely upon analogy to other laws, or that look to similar treatment for actions under other laws, are prohibited. Therefore, under Japan law, an act shall not be punishable unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the corresponding provisions.

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## APPLICABLE LAWS AND REGULATIONS

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A person shall not be subject to any criminal liability without procedural due process being observed under the Code of Criminal Procedures (刑事訴訟法) of Japan (Act No. 131 of 1948). Police have to secure warrants to search for or seize evidence. A warrant is also necessary for an arrest, although if the crime is very serious or if the perpetrator is likely to flee, it can be obtained immediately after arrest. Within forty-eight hours after placing a suspect under detention, the police have to present their case before a prosecutor, who is then required to apprise the accused of the charges and of the right to counsel. Prosecution will be denied if there is insufficient evidence or on the prosecutor's judgment. Most offences are tried first in district courts before one or three judges, depending on the severity of the case. Defendants are protected from self-incrimination, forced confession, and unrestricted admission of hearsay evidence. In addition, defendants have the right to counsel, public trial, and cross-examination.

### **8. Civil Code**

#### **a. Structure of Civil Code**

The Civil Code was enacted in 1896. It was heavily influenced by the German Civil Code and the French Civil Code. The code is divided into five parts, namely General Provisions, Property, Claims, Family and Inheritance. The parts related to family and succession retain certain elements of the old patriarchal family system that was part of Japanese tradition. The Civil Code has remained substantially unchanged even after the American occupation in 1945, except for the fourth and fifth parts.

#### **b. Contract Law**

As is the case for many countries, contracts under Japan law are formed by the manifestation of intention by way of offer and acceptance. The parties generally enjoy freedom to agree on the terms and conditions of any contract which will supersede most provisions of the Civil Code. However, some contracts may be subject to the mandatory requirements under the Consumer Contract Act (消費者契約法) of Japan (Act No. 61 of 2000) and other applicable laws and regulations. The formation of contracts does not require documentation unless otherwise required under special laws and regulations. Contrary to common law jurisdictions, consideration is not necessary for a contract to be enforceable. Also, there are no rules directly equivalent to the parol evidence rule in interpreting the terms and conditions of the contract.

#### **c. Torts**

Under the Civil Code, a person who has intentionally or negligently infringed on any right of another, or a legally protected interest of another, shall be liable to compensate the other party for consequential damages. An employer is liable for damages inflicted on a third party by the actions of his/her employees in the execution of the employer's business. However, this shall not apply if the employer exercised reasonable care in appointing the employee or in supervising the employee's activities, or if the damages could not have been avoided even if he/she had



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exercised reasonable care. If more than one person has inflicted damages on another party or parties by their joint tortious acts, each of them shall be jointly and severally liable to compensate the other party or parties for those damages. The same shall apply if it cannot be ascertained which of the joint tortfeasors inflicted the damages.

### **d. Property**

Property rights are based upon the concept of ownership (title) under Japan law. The owner of the property generally enjoys an absolute right to possess, utilise and dispose of the property, unless otherwise restricted under the mandatorily applicable laws or specifically agreed through a contract. Therefore, there is no concept of negative or affirmative covenants under Japan law and the same purpose is achieved by mandatory laws in Japan (such as zoning or building or environmental laws and regulations) or by specific contractual arrangements.

Under the Civil Code, no type of property can be established other than those prescribed by laws including the Civil Code. The creation and transfer of property rights shall take effect solely by the manifestations of intention of the relevant parties. Any deed or written agreement is generally not required for the transfer of property (including land ownership) to be valid and enforceable under Japan law and oral agreement is generally sufficient. However, the acquisition or loss of or any change in property rights concerning immovable property may not be asserted against a third party unless the same are registered pursuant to the applicable provisions of the Real Estate Registration Act\* (不動産登記法) (Act No. 123 of 2004) and other applicable laws and regulations regarding land registration.

## **B. REGULATORY FRAMEWORK FOR PACHINKO BUSINESSES**

Our pachinko and pachislot hall operations are subject to various requirements and restrictions under Japan law and oversight by Japanese regulatory authorities. Generally, pachinko regulations fall under the Amusement Business Law and the Cabinet of Japan\* (内閣) and ministerial ordinances and regulations thereunder. In particular, the Penal Code states that “gambling” is an offence, while the Amusement Business Law (and its ancillary prefectural local regulations) prohibits pachinko hall operators from being involved in the exchange of prizes for cash or securities by either providing cash or securities as prizes or repurchasing from customers the prizes provided to them. In order to ensure compliance with the Penal Code and the Amusement Business Law, the pachinko industry operates under the “Three Party System” as described in greater detail in “— C. Legality of Pachinko Businesses and the Three Party System” and also in “Business — Pachinko and Pachislot Hall Operations — Three Party System”.

We are also subject to Japan laws and regulations that require pachinko hall operators to obtain operating licenses and impose various operating requirements on pachinko halls and pachinko and pachislot machines, as well as other Japan law and regulations applicable to Japanese companies generally, such as those relating to corporate governance, taxation and labour.

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## APPLICABLE LAWS AND REGULATIONS

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Pachinko is a well-established business and has been in place in Japan for more than eight decades. The history of the pachinko industry has been characterised by government efforts to reform the industry to curb speculative excesses and perceived social problems relating to the industry. Prior to the later part of the period from 1995 to 1999, questionable business practices and crime and other anti-social forces gave the pachinko industry a negative public image. However, over the last two decades, the growing magnitude and importance of pachinko to the Japanese economy spurred the Japanese government and industry associations to step in to establish strict regulations, remove criminal and anti-social elements and improve the public image of the pachinko industry. The regulation effort has been highly successful. Due to the success of these reform efforts, the pachinko industry has evolved to become an integral part of the entertainment industry in Japan and an important component of the Japanese economy.

The table below sets out the major regulatory developments that have affected the pachinko industry and the Three Party System over time:

<b>Date</b>	<b>Events</b>
17 July 1880. . . . .	The predecessor to the current Penal Code is first enacted, including provisions equivalent to the present provisions related to “gambling” and “running a gambling place for the purpose of gain” (Articles 260 and 261), which provided that: (1) “gambling” is a criminal offence punishable by imprisonment for one to six months and/or a fine of ¥5 to ¥50; and (2) “running a gambling place for the purpose of gain” is a criminal offence punishable by imprisonment for 3 months to one year and/or a fine of ¥10 to ¥100.
24 April 1907 . . . . .	The Penal Code is promulgated, replacing its predecessor. The Penal Code includes provisions equivalent to the present provisions related to “gambling”, “habitual gambling” and “running a gambling place for the purpose of gain” (Articles 185 and 186), which provided that: (1) “gambling” is a criminal offence punishable by a maximum fine of ¥1,000; (2) “habitual gambling” is a criminal offence punishable by up to three years’ imprisonment; and (3) “running a gambling place for the purpose of gain” is a criminal offence punishable by imprisonment of three months to five years.
1930 . . . . .	The first pachinko hall in Japan is opened in Nagoya (名古屋市), Aichi Prefecture (愛知県), Japan.
1942 to 1945 . . . . .	The pachinko hall business is temporarily banned during World War II as an unnecessary business in times of emergency.

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Date	Events
10 July 1948. . . . .	<p>The “Act Regulating Amusement Business” (風俗営業取締法) is enacted, under which pachinko hall operations became subject to licensing by the Public Safety Commission. Under Article 3 of this Act, each prefecture may set restrictions on amusement business operators, necessary to prevent harm to good morals.</p> <p>Therefore, most prefectures began promulgating local regulations prohibiting pachinko halls from:</p> <ol style="list-style-type: none"><li>1. providing cash as prizes;</li><li>2. repurchasing from customers the prizes provided to them by those pachinko halls (the “<b>Direct Repurchase Regulation</b>”); and</li><li>3. causing a third party to repurchase the prizes (the “<b>Indirect Repurchase Regulation</b>”).</li></ol>
10 November 1953. . . . .	<p>The Supreme Court (最高裁判所) (the highest court of Japan) stated in their judgment that, if an operator of a gaming licence operates its gaming business in accordance with the conditions and restrictions applicable to its operating licence duly granted by the Public Safety Commission under the “Act Regulating Amusement Business” (風俗営業取締法), such business activities can be deemed as an “activity involving betting for a thing that is provided for temporary amusement” under Article 185 of the Penal Code, thus, shall not be constitute any “gambling” offence under the Penal Code.</p>
1961 . . . . .	<p>An early form of the Three Party System is adopted in the Osaka Prefecture (大阪府). Since then, the Three Party System has spread across Japan</p>
17 June 1968. . . . .	<p>The Fukuoka High Court (福岡高等裁判所) holds that there is no violation of the Direct Repurchase Regulation or Indirect Repurchase Regulation in local regulations, if prizes are commingled with prizes from other sources, because it will be impossible to identify which of the prizes being purchased by the pachinko hall were originally from that same pachinko hall.</p>

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Date	Events
14 August 1984 . . . . .	The “Act Regulating Amusement Business” (風俗営業取締法) is renamed 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) (i.e. the Amusement Business Law), introducing the Direct Repurchase Regulation (previously only in local regulations) into national legislation, and is substantially amended to prohibit, among others, under Article 23:  <ol style="list-style-type: none"><li>1. providing customers with cash or securities as prizes; and</li><li>2. repurchasing from customers the prizes provided to them.</li></ol>
August 1984 . . . . .	Most prefectural government has passed local regulations ancillary to the Amusement Business Law, which included the Indirect Repurchase Regulation as well as the Direct Repurchase Regulation.
11 January 1985 . . . . .	The Enforcement Ordinance is enacted, setting the maximum limit on the value of a prize offered by an amusement business to ¥3,000.
25 September 1990 . . . . .	The Enforcement Ordinance is amended, raising the maximum limit on the value of a prize offered by an amusement business to ¥10,000 (after consumption tax) (approximately ¥9,524 before consumption tax) (Article 35, Paragraph 3).
17 April 1991 . . . . .	The Penal Code is amended to raise the maximum penalty for the criminal offence of “gambling” to a fine of ¥500,000 (Article 185).
25 June 2003 . . . . .	The National Police Agency answers questions raised by the “Group of Diet Members Considering Casino as an International Tourism Industry” (国際観光産業としてのカジノを考える議員連盟) and comments in support of the Three Party System in terms of both the Penal Code and the Amusement Business Law. The comments state that (among others): (1) pachinko halls that operate their business within the scope provided under the Amusement Business Law shall not be considered to have committed any “gambling” offence under the Penal Code; and (2) since the Amusement Business Law only regulates pachinko hall operators (and not persons or entities unrelated to the pachinko hall operator), third parties are not prohibited from purchasing prizes from pachinko hall customers.
1 April 2014 . . . . .	The Enforcement Ordinance is amended, raising the maximum limit on the value of a prize offered by an amusement business to ¥10,368 (after consumption tax) (¥9,600 before consumption tax).

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### **Principal Administrative and Regulatory Authorities**

The following are the principal administrative and regulatory authorities that oversee pachinko and pachislot hall operations in Japan:

- the National Public Safety Commission (including the National Police Agency);
- the Prefectural Public Safety Commission in the prefecture in which the relevant hall is located;
- police personnel;
- prefectural governments;
- the Security Communications Association\* (保安通信協会);
- the Prefectural Entertainment Environment Cleanup Association\* (都道府県風俗環境浄化協会); and
- the Minors Orientation Committee\* (青少年健全育成審議会).

### ***National Public Safety Commission (including the National Police Agency)***

The National Public Safety Commission is an administrative commission belonging to the Cabinet Office\* (内閣府) in the Cabinet of Japan\* (内閣). It oversees national security in Japan and implements regulations relating to the technical specifications of pachinko and pachislot machines as well as the operations of pachinko halls. For example, the National Public Safety Commission regulations in conjunction with the Amusement Business Law govern the playing costs of pachinko games, machine designs, maximum payout ratios, maximum balls and pachislot tokens put into play and won, method of providing prizes, maximum value of prizes offered and the minimum age for playing pachinko.

The National Public Safety Commission also oversees the National Police Agency, which leads the prefectural police in their implementation of National Public Safety Commission regulations and policies.

### ***Prefectural Public Safety Commission***

Each prefecture has its Prefectural Public Safety Commission, which is an administrative commission that supervises prefectural police agencies in their implementation of the National Public Safety Commission policies and regulations. Each Prefectural Public Safety Commission has the power to grant or cancel pachinko hall licences, grant permission for changes in the structure of pachinko halls, certify and approve pachinko and pachislot machines, approve the technical standards for pachinko and pachislot machines and monitor violations of laws and

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regulations by pachinko hall operators. It has the authority, to the extent necessary for enforcement of the Amusement Business Law, to require holders of a pachinko hall licence to submit documentation concerning business matters. It also conducts hearings related to revocation, suspension or cancellation of pachinko hall licences or pachinko hall operations, and other related disciplinary actions against pachinko hall operators and pachinko hall managers.

### ***Police personnel***

Police personnel are overseen by the National Police Agency and are permitted to enter pachinko halls to the extent necessary for enforcing the Amusement Business Law.

### ***Prefectural governments***

Prefectural governments set the standards for the hours of operation of pachinko halls, the level of noise and vibration around pachinko halls and collect fees which are necessary for certification, approval and examination of pachinko halls and pachinko and pachislot machines. Such standards must at least meet the minimum standards set out under the Amusement Business Law.

### ***Security Communications Association\* (保安通信協会)***

The Security Communications Association\* (保安通信協会) is responsible for examining machines to ensure that they comply with Amusement Business Law standards in their technical specifications and also to ensure that they do not promote a “passion for gambling”.

### ***Prefectural Entertainment Environment Cleanup Association\* (都道府県風俗環境浄化協会)***

The Prefectural Entertainment Environment Cleanup Association\* (都道府県風俗環境浄化協会) works under the Prefectural Public Safety Commission to organise personnel training and promote compliance with the Amusement Business Law.

### ***Minors Orientation Committee\* (青少年健全育成審議会)***

The Minors Orientation Committee\* (青少年健全育成審議会) works under each Prefectural Public Safety Commission to prevent minors from being involved in any “amusement business”.

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### C. LEGALITY OF PACHINKO BUSINESSES AND THE THREE PARTY SYSTEM

#### 1. Penal Code

Under the Penal Code, gambling is a criminal offence. There are three types of gambling offences, namely: (1) “gambling”, punishable by a fine of up to ¥500,000 (Article 185); (2) if gambling is habitual, “habitual gambling”, punishable by up to three years’ imprisonment (Article 186); and (3) if a place is run for gambling or organises a group of habitual gamblers, “running a gambling place for the purpose of gain”, punishable by between three months’ and five years’ imprisonment.

The Penal Code provides for certain exemptions for this gambling offence, such as activities that are expressly allowed under Japan laws and regulations (such as small-scale lotteries and public horse-racing). Significantly, Article 185 of the Penal Code exempts activities involving “betting for a thing that is provided for temporary amusement”. Therefore, as a pachinko hall operator, we must conduct our operations such that we only offers prizes that fall within the scope of “a thing that is provided for temporary amusement”.

The Supreme Court (最高裁判所) (the highest court in Japan) has stated in their judgment that, if an operator of a gaming place operates its gaming business in accordance with the conditions and restrictions applicable to its operating licence duly granted by the Public Safety Commission under the then-equivalent of the Amusement Business Law, such business activities can be deemed as “an activity involving betting for a thing which is provided for temporary amusement” under Article 185 of the Penal Code. Therefore, according to Article 185 of the Penal Code, such business activities do not constitute any gambling offence under the Penal Code.

In addition, on 25 June 2003, the National Police Agency issued a statement in response to questions raised by the “Group of Diet Members Considering Casino as an International Tourism Industry” (国際観光産業としてのカジノを考える議員連盟). This statement essentially agreed with the Supreme Court’s (最高裁判所) ruling and commented in support of the Three Party System in terms of both the Penal Code and the Amusement Business Law. The comments state that (among others): (1) pachinko halls that operate their business within the scope provided under the Amusement Business Law shall not be considered to have committed any gambling offence under the Penal Code; and (2) since the Amusement Business Law only regulates pachinko hall operators (and not persons or entities unrelated to the pachinko hall operator), third parties are not prohibited from purchasing prizes from pachinko hall customers.

Our Japan Legal Adviser, after conducting due diligence as described in “— C. Legality of Pachinko Businesses and the Three Party System — 3. The Three Party System — Independence — Due diligence conducted by our Japan Legal Adviser and the Sole Sponsor” below, has confirmed that we have duly obtained and maintained at all times a valid operating licence under the Amusement Business Law for all of our halls, our pachinko and pachislot hall operations (including the prizes offered by each of our halls) is conducted in accordance with the conditions and restrictions applicable to such operating licence, and we have not committed any material breach of the Amusement Business Law, thus, our pachinko and pachislot hall operations do not constitute any gambling offence under, and do not violate, the Penal Code.

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## APPLICABLE LAWS AND REGULATIONS

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### 2. Amusement Business Law and Local Regulations

The Amusement Business Law sets regulations for “amusement businesses”, such as pachinko hall operators, that they must comply with in order to operate their business. See “— D. Other Regulations on Pachinko Businesses” for more details about the requirements under the Amusement Business Law.

Article 23 of the Amusement Business Law prohibits pachinko hall operators from being involved in the exchange of prizes for cash or securities by either: (1) providing cash or securities as prizes; or (2) directly repurchasing from customers the prizes provided to them for cash or securities. A breach of Article 23 may cause the pachinko hall operator to be subject to suspension of business for a period ranging from 20 days to 180 days as an administrative sanction. In addition, a penalty of imprisonment up to six months, or a fine of ¥1 million may be imposed as criminal sanctions. If the pachinko hall operator is a company, the hall operator itself will only be subject to the fine, while person(s) who committed the breach as its representative, attorney or employee will be subject to imprisonment and/or the fine.

In accordance with industry practice, we strictly do not provide cash or securities to our customers, but only general prizes and G-prizes. Our Japan Legal Adviser, after conducting due diligence searches as described in “— C. Legality of Pachinko Businesses and the Three Party System — 3. The Three Party System — Independence — Due diligence conducted by our Japan Legal Adviser and the Sole Sponsor” below, has confirmed we have fully complied with such industry practice and that we have never been, and are not currently, in breach of Article 23 of the Amusement Business Law.

Significantly, there are no prohibitions against: (1) customers selling G-prizes (exchanged with balls or tokens in a pachinko hall) to a third party who is not the pachinko hall operator; or (2) pachinko hall operators purchasing G-prizes from a third party who is not their customer. However, it should be noted that most prefectural governments have passed local regulations ancillary to the Amusement Business Law, which also prohibit pachinko hall operators from causing a third party to repurchase G-prizes from their customers (the “**Third Party Local Regulations**”) (who merely acts as the operator’s agent or an intermediary in the repurchase process).

In fact, the National Police Agency has commented, including in its statement on 25 June 2003 in response to questions raised by the “Group of Diet Members Considering Casino as an International Tourism Industry” (国際観光産業としてのカジノを考える議員連盟) that the Amusement Business Law and the Third Party Local Regulations only regulates “amusement businesses” (such as pachinko hall operators) and not persons or entities unrelated to them, thus, an unrelated third party is not prohibited from purchasing G-prizes from customers. Accordingly, the National Police Agency’s prevailing interpretation in its administration of the Amusement Business Law and the Third Party Local Regulations is that it is legal for a pachinko hall operator to purchase G-prizes from an unrelated third party, provided that such G-prizes are commingled with G-prizes from other halls through the hands of such unrelated third party.



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### 3. The Three Party System

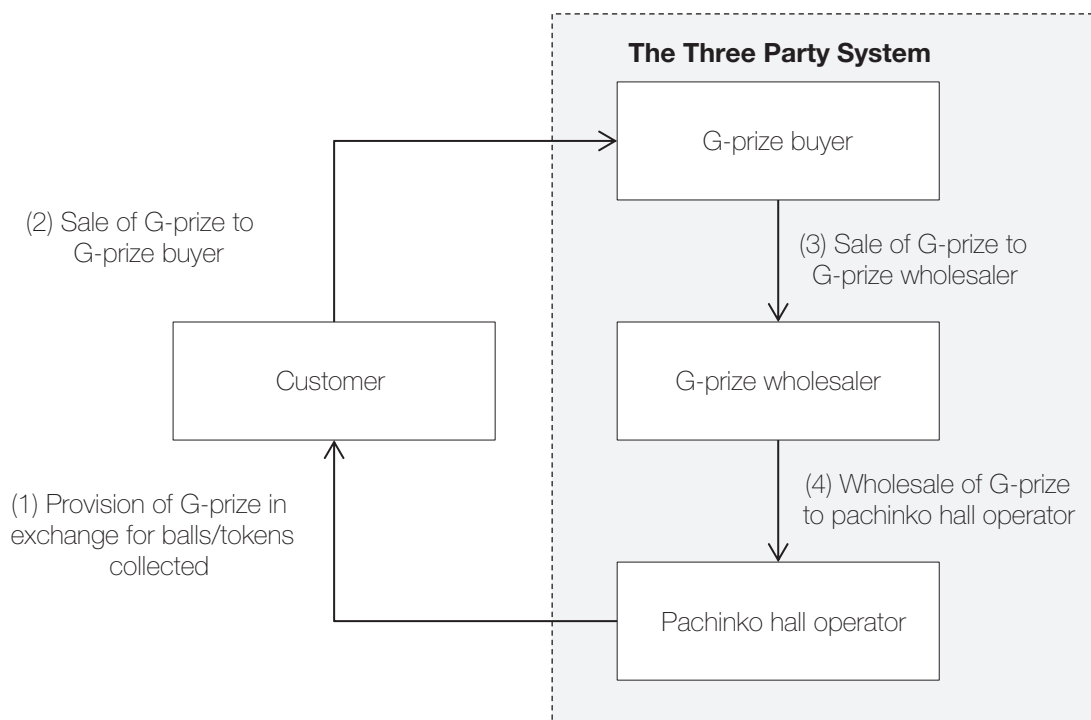
In order to ensure compliance with the Amusement Business Law, the Third Party Local Regulations and the National Police Agency's prevailing interpretation in its administration of the above, the pachinko industry has developed a practice, for the sale and purchase of G-prizes exchanged by a customer by playing at a hall, through unrelated third parties. This industry practice is commonly referred to as the "Three Party System".

#### **Parties**

The parties under the "Three Party System" consist of:

1. **Pachinko hall operators.** These operate pachinko halls that provide pachinko and pachislot games, and also purchase G-prizes from G-prize wholesalers. Customers can play these games and exchange their balls or tokens in these halls for prizes, such as G-prizes;
2. **G-prize buyers.** These are typically companies or sole proprietorships. Customers can, but are not obliged to, sell their G-prizes (that they obtained from pachinko halls) to them for cash. G-prize buyers will then further sell these G-prizes to G-prize wholesalers; and
3. **G-prize wholesalers.** These are typically companies and they purchase G-prizes from G-prize buyers, and then further sell them to pachinko hall operators.

The diagram below shows the general flow of G-prizes within the Three Party System and with customers:



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While the purchase price for transactions marked (2), (3) and (4) in the above diagram is generally similar, G-prize wholesalers also typically receive a monthly fee from hall operators and G-prize buyers also typically receive a monthly fee from the relevant G-prize wholesaler, for their respective services rendered for such relevant transactions. According to industry practice, the monthly fee paid by hall operators to G-prize wholesalers is greater than that paid by G-prize wholesalers to their G-prize buyers. As for transaction (1), depending on the location of the hall and competition in that area, a mark-up on the G-prizes (set by the pachinko hall operator) may be added over the purchase price of the G-prize paid by the pachinko hall operator to the G-prize wholesaler, when the customer exchanges his balls or tokens for G-prizes. For instance, assuming a 10% G-prize mark up, a customer will need 1,100 ¥1 balls to exchange a G-prize with a cost of ¥1,000 from the operator.

Further, G-prize wholesalers may purchase G-prizes from various G-prize buyers, and they may also sell G-prizes to various pachinko hall operators if the G-prize is of the same type in design and appearance. As such, all the G-prizes purchased by the wholesaler from multiple G-prize buyers are commingled, meaning that the G-prizes that are sold to the pachinko hall by the wholesaler are not necessarily the same G-prizes provided by the pachinko hall to its customers.

### ***Independence***

Under the Three Party System, pachinko hall operators (such as ourselves), must be independent of each of: (1) the G-prize wholesalers engaged by them; and (2) G-prize buyers engaged by such G-prize wholesalers. This ensures that, from the pachinko hall operators' perspective, G-prize wholesalers and G-prize buyers are unrelated third parties from the pachinko hall operator.

### *Independence between pachinko hall operators and G-prize wholesalers*

A G-prize wholesaler is independent and an unrelated third party to the pachinko hall operator if:

1. neither party may have the ability to exercise control, whether directly or indirectly, over the other, through (i) any relationship or connection between the personnel of the pachinko hall operator and the G-prize wholesaler, (ii) any equity holding or any other capital relationship or connection between the pachinko hall operator and the G-prize wholesaler, or (iii) any contract or other agreement between the pachinko hall operator and the G-prize wholesaler; and
2. G-prizes to be purchased are of market value, meaning that G-prizes must have intrinsic value (which can be satisfied by the metal (such as gold) embedded in the G-prize).

Each of these factors is satisfied with respect to all of our pachinko halls.

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## APPLICABLE LAWS AND REGULATIONS

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Our Japan Legal Adviser, after conducting due diligence as described in “— C. Legality of Pachinko Businesses and the Three Party System — 3. The Three Party System — Independence — Due diligence conducted by our Japan Legal Adviser and the Sole Sponsor” in this section below, has also determined that each of our pachinko halls is independent as evaluated under the factors listed above from each of our G-prize wholesalers.

### *Independence between pachinko hall operators and G-prize buyers*

A G-prize buyer is independent and an unrelated third party to the pachinko hall operator if:

1. neither party may have the ability to exercise control, whether directly or indirectly, over the other, through (i) any relationship or connection between the personnel of the G-prize buyer and the pachinko hall operator, (ii) any equity holding or any other capital relationship or connection between the G-prize buyer and the pachinko hall operator, or (iii) any contract or other agreement between the G-prize buyer and the pachinko hall operator;
2. G-prizes to be purchased are of market value, meaning that G-prizes must have intrinsic value (which can be satisfied by the metal (such as gold) embedded in the G-prize); and
3. G-prizes are not directly returned from or sold by the G-prize buyer to the pachinko hall operator (but, for example, are instead sold by the G-prize buyer to a G-prize wholesaler who in turn commingles the G-prizes that it has purchased from multiple sources (including other G-prize buyers), thus, making it impossible to identify which hall the G-prizes came from).

Each of these factors is satisfied with respect to all of our pachinko halls.

Our Japan Legal Adviser, after conducting due diligence as described in “— C. Legality of Pachinko Businesses and the Three Party System — 3. The Three Party System — Independence — Due diligence conducted by our Japan Legal Adviser and the Sole Sponsor” in this section below, has confirmed that each of our pachinko halls is independent as evaluated under the factors listed above from each of the G-prize wholesalers (engaged by us) G-prize buyers (engaged by such G-prize wholesalers).

### *Our internal control procedures to ensure our independence*

We have obtained written confirmations issued to us and the Sole Sponsor from all our current G-prize wholesalers regarding their independence (based on criteria even stricter than that set out above) from: (1) us; and (2) any G-prize buyers engaged by them who have G-prize buying shops near our halls. These confirmations also covered the following matters:

- a complete and accurate list of all G-prize buyers engaged by them who have G-prize buying shops near our halls;

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- to the best of their knowledge, the content of the confirmations issued by such G-prize buyers (as described below) to us and the Sole Sponsor is true and accurate;
- written undertakings to conduct their own regular background checks against any G-prize buyers engaged by them in order to monitor any independence issues between such G-prize buyers and themselves, and if these G-prize wholesalers become aware of any such independence issues, they will inform us and resolve such issues immediately in order to ensure compliance with the Three Party System;
- written undertakings to report to us in a timely manner any change in their shareholding structure and composition of their board of directors, or if they become aware of any change in the shareholding structure or composition of the board of directors of any G-prize buyers engaged by them or any other matters that may affect their independence or the independence of such G-prize buyers within the Three Party System; and
- to the best of their knowledge, they are not aware that any such G-prize buyers are anti-social forces, or are or will be involved in any actions or activities using, or jointly associate with, any anti-social force. Further, neither they nor any of their representatives, directors, statutory auditors, executive officers or shareholders are anti-social forces, or are or will be involved in any actions or activities using, or jointly associate with, any anti-social force.

We have obtained written confirmations issued to us and the Sole Sponsor from all such G-prize buyers regarding their independence (based on criteria even stricter than that set out above) from: (1) us; and (2) any G-prize wholesalers engaged by us. These confirmations also covered the following matters:

- neither they nor any of their representatives, directors, statutory auditors, executive officers or shareholders are anti-social forces, or are or will be involved in any actions or activities using, or jointly associate with, any anti-social force;
- to the best of their knowledge, they are not aware that any such G-prize wholesalers are anti-social forces, or are or will be involved in any actions or activities using, or jointly associate with, any anti-social force; and
- they have undertaken to the G-prize wholesaler that engages them that they shall report to such G-prize wholesaler in a timely manner any change in their shareholding structure or composition of board of directors or any other matters that may affect their independence within the Three Party System.

We have also obtained through our current G-prize wholesalers a list of the shareholders of the G-prize buyers engaged by them.

We will require our G-prize wholesalers to re-issue, and to request their G-prize buyers to re-issue, these confirmations to us every year.

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In addition, we have also adopted the following internal control procedures to ensure the independence of our pachinko halls from each of our G-prize wholesalers and G-prize buyers engaged by them:

- we regularly obtain from each of our G-prize wholesalers a list of the shareholders (or ultimate owners) and directors of both themselves and the G-prize buyers engaged by them;
- we will annually obtain commercial registers of all our G-prize wholesalers and the G-prize buyers engaged by them (provided that they are legal corporate entities) to review the composition of their board of directors;
- we will engage independent third parties to perform annual searches on the shareholding structure and list of directors (if available) for all of our G-prize wholesalers and G-prize buyers engaged by them;
- we require our Directors, senior management and Shareholders to confirm that they are independent of our G-prize wholesalers and such G-prize buyers (based on the criteria set out above), and to notify us immediately if they become aware of any potential independence issues;
- we will provide training on the Three Party System to our employees on a regular basis to ensure that they do not engage with G-prize wholesalers or G-prize buyers engaged by them, and to prevent them from unknowingly establishing a relationship with them. For example, all our Directors and senior management attended a training conducted by our Japan Legal Adviser in December 2014 on the legal, regulatory and practice requirements under the Penal Code, the Amusement Business Law and the Third Party Local Regulations, including the independence requirements within the Three Party System;
- we require that none of our management, Directors or staff are engaged in the G-prize buying business; and
- as our pachinko and pachislot hall operations are monitored by the Prefectural Public Safety Commission in each relevant prefecture, in order to prevent any conflicts of interest that might otherwise arise and for improved corporate governance, none of our Directors or senior management has been, or is, a police officer in Japan and we require them to confirm so to us.

For our internal control procedures in relation to potential new G-prize wholesalers, see “Business — Pachinko and Pachislot Hall Operations — Three Party System — Risk Management”.

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### *Due diligence conducted by our Japan Legal Adviser and the Sole Sponsor*

Our Japan Legal Adviser and Sole Sponsor has conducted the following due diligence regarding our independence from each of our G-prize wholesalers and the G-prize buyers engaged by them:

- hosted a training session conducted by our Japan Legal Adviser in December 2014 for all our Directors and senior management on the legal, regulatory and practice requirements under the Penal Code, the Amusement Business Law and the Third Party Local Regulations, including the independence requirements within the Three Party System;
- obtained confirmations issued to us and the Sole Sponsor from our Directors and senior management regarding (among others) their attendance and understanding of the relevant legal, regulatory and practice requirements (including on independence) explained at the above training session;
- obtained confirmations issued to the Sole Sponsor from our Company, Directors, Shareholders and senior management regarding (among others) the Group's and their independence from each of our G-prize wholesalers and the G-prize buyers (engaged by our G-prize wholesalers);
- interviewed all our Directors and senior management regarding (among others) their understanding of the relevant legal, regulatory and practice requirements (including on independence) explained at the above training session, their relationship(s) with our G-prize wholesalers and also the G-prize buyers (engaged by our G-prize wholesalers), and ultimately to confirm the Group's and their independence from each such party;
- interviewed our G-prize wholesalers (through their legal representative, a director or other responsible management personnel), regarding (among others) their relationship(s) with our Group and also the G-prize buyers (engaged by them), and ultimately to confirm their independence from each such party;
- interviewed the G-prize buyers (engaged by our G-prize wholesalers) (through their legal representative, a director or other responsible management personnel) regarding (among others) their relationship(s) with our Group and also our G-prize wholesalers, and ultimately to confirm their independence from each such party;
- reviewed all agreements between us and our G-prize wholesalers, namely purchase agreements for G-prizes, lease agreements and purchase agreements for miscellaneous goods and services. See "Business — Pachinko and Pachislot Hall Operations — Three Party System — Agreements between us and G-prize wholesalers" for details on such agreements, including our Japan Legal Adviser's confirmation that such agreements do not affect our independence;

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- reviewed the written confirmations issued to us and the Sole Sponsor from all of our G-prize wholesalers and the G-prize buyers (engaged by our G-prize wholesalers) (except for those engaged in relation to our one hall that has been permanently closed due to the Great East Japan Earthquake) regarding (among others) their independence within the Three Party System. See “— C. Legality of Pachinko Businesses and the Three Party System — 3. The Three Party System — Independence — Our internal control procedures to ensure our independence” for details of these confirmations;
- reviewed all commercial registers of our G-prize wholesalers and such G-prize buyers (engaged by our G-prize wholesalers) that are corporations in order to identify (among others) to identify any overlap of directors; and
- obtained a list of the Group’s representatives, directors, statutory auditors, executive officers and shareholders through the Group’s commercial registers and share registers.

### ***Legality of our pachinko and pachislot hall operations and the Three Party System***

Our Japan Legal Adviser, having conducted due diligence described above and reviewed the relevant court cases, governmental statements and practices, has advised us that:

1. the National Police Agency has never taken any action against the legality of the pachinko industry, as a whole, under the Penal Code, the Amusement Business Law, the Third Party Local Regulations or otherwise;
2. as long as our pachinko and pachislot hall operations are conducted under the Three Party System, in accordance with prevailing standard industry practices in the pachinko industry, and the independence factors described above are satisfied, our pachinko and pachislot hall operations will not violate the Penal Code, the Amusement Business Law or the Third Party Local Regulations;
3. our pachinko and pachislot hall operations (as carried out in the context of the Three Party System) do not contravene the Penal Code, the Amusement Business Law, the Third Party Local Regulations or any of the operating licences of our halls; and
4. as at the Latest Practicable Date, we have not been found to be in any material breach of the Penal Code, the Amusement Business Law, the Third Party Local Regulations or any of the operating licences of our halls.

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### D. OTHER REGULATIONS ON PACHINKO BUSINESSES

#### 1. Pachinko Hall Business Licence (“Operating Licence”)

A pachinko hall business is considered an “amusement business” under the Amusement Business Law and other relevant laws, regulations, and prefectural ordinances. Under the Amusement Business Law, a pachinko hall operator must, prior to establishing each pachinko hall, obtain an Operating Licence from the relevant Prefectural Public Safety Commission\* (都道府県公安委員会). Once granted, the Operating Licence will remain effective unless and until it is cancelled by the Prefectural Public Safety Commission pursuant to the Amusement Business Law.

As at the Latest Practicable Date, we owned 56 halls and had obtained and directly hold a licence (through Niraku Corporation) for each of these halls, each of which is currently valid.

#### *Application*

When considering an application for an Operating Licence, the Prefectural Public Safety Commission will consider the following factors under the Amusement Business Law:

- whether the business owner/operator is, with reference to past offences or other instances of regulatory non-compliance, a fit and proper person to hold an Operating Licence (the “**Fit and Proper Person Requirements**”);
- the proposed place of business, including its structural integrity and other technical building specifications;
- the location of the intended place of business, including town planning and area zoning considerations and proximity to schools and hospitals; and
- the compliance with legal specifications of the pachinko and pachislot machines intended to be installed at the proposed hall.

#### *Conditions*

Operating Licences carry certain restrictions. For example, the Prefectural Public Safety Commission must grant prior approval to any corporate restructuring or corporate succession carried out by a holder of an Operating Licence (the “**Licence Holder**”) in the relevant prefecture. Any Operating Licence transferee is subject to the same requirements as the original Licence Holder. This prevents unauthorised transfer of an Operating Licence. Also, another condition is that pachinko and pachislot machines installed in pachinko halls do not encourage a “passion for gambling”. See “— D. Other Regulations on Pachinko Businesses — 2. Pachinko and Pachislot Machine Regulations” in this section below for details.



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Also, the Prefectural Public Safety Commission may, at its discretion and at any time, impose additional conditions on the Operating License as it considers necessary to maintain certain moral decency standards within the pachinko hall and broader food and beverage industry, or otherwise for the protection of minors. For example, the Operating Licences for all our halls in Tokyo (東京都) have a standard condition (that applies to all halls for all pachinko hall operators), which states that players can only play one machine at a time, and players must not use any equipment that will affect the handle of the playing machines. Also, the Operating Licence for two of our halls (namely, in Fukushima Prefecture (福島県) and Kanagawa Prefecture (神奈川県)) also have another condition that restricts these halls from expanding to within 100 metres of a school. Save for the above, there are no other conditions in the Operation Licences of our halls.

### *Directives, sanctions, cancellation or suspension*

The Prefectural Public Safety Commission has broad authority to issue directives or impose sanctions on a Licence Holder, including its business representatives and employees, in circumstances where there has been a breach of the Amusement Business Law or other civil and criminal laws.

The Prefectural Public Safety Commission may cancel an Operating Licence, or issue a directive to suspend operations carried on thereunder, where:

- it has been obtained through fraudulent or other illegal means;
- the Licence Holder no longer satisfies the Fit and Proper Person Requirements;
- the pachinko business has not commenced within six months from the grant of an Operating Licence or there has been any suspension of operations for more than six months without justifiable grounds;
- the whereabouts of the Licence Holder is unknown for more than three months;
- the Licence Holder breaches any legislation pertaining to the business which is the subject of the Operating Licence, and such violation is likely to either cause substantial harm to a good and quiet moral environment, or to violate the rights of minors; or
- the Licence Holder fails to comply with a directive of the Prefectural Public Safety Commission or a license condition.

In the event that the pachinko operator has an objection to the cancellation or suspension of an Operating Licence, it may, within six months from such decision, bring an action with the relevant court for the revocation of the administrative decision.

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### 2. Pachinko and Pachislot Machine Regulations

The Amusement Business Law, the Enforcement Ordinance and the enforcement regulations prescribed under the Amusement Business Law, also regulate pachinko and pachislot machines installed in pachinko halls by the Licence Holder. One of the Operating Licence conditions is that pachinko and pachislot machines installed in pachinko halls do not encourage a “passion for gambling”.

Pachinko and pachislot machines are subject to certain restrictions, such as those listed below, in order to comply with this condition:

- limitations on the value of pachinko balls or pachislot tokens that may be put into play per minute (namely, ¥400);
- limitations on the number of pachinko balls or pachislot tokens that may be won in various modes of play;
- limitations on the total number of pachinko balls or pachislot tokens that may be won over a continuous period of play;
- the size of the pockets which trigger jackpot mode, as compared to the size of the pachinko ball, may not be significantly larger or smaller than the customary size;
- pachinko balls may not be automatically fired into the field of play without the player directly controlling the shooting strength; and
- the machine may not be capable of easily being illegally modified or otherwise changed.

The payouts of pachinko balls and pachislot tokens resulting from “jackpot” or “bonus” modes as a percentage of total balls or tokens played is limited by law so as to discourage playing with the sole purpose of winning or “gambling”.

For pachinko balls, the key required ranges on payout ratios are that the number of balls that the pachinko machine may pay out shall be: (1) less than or equal to 15 times the number of balls put into play at any time; (2) less than or equal to 3 times the number of balls put into play over a continuous 1-hour period; and (3) between 0.5 to 2 times the number of balls put into play over a continuous 10-hour period.

For pachislot tokens, the key required ranges on payout ratios are that the number of tokens that the pachislot machine may pay out shall be: (1) less than or equal to 15 times the number of tokens put into play at any time; (2) less than or equal to 3 times the number of tokens played over 400 consecutive plays; (3) less than or equal to 1.5 times the number of tokens played over 6,000 continuous plays; and (4) between 0.55 to 1.2 times the number of tokens played over 17,500 continuous plays.

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A person who intends to manufacture or import a pachinko or pachislot machine or to install it may, but is not legally required to, apply for an inspection of the machine by the Security Communications Association\* (保安通信協会) for specifications of such imported or manufactured pachinko or pachislot machine. A machine manufacturer typically submits its machine prototypes to testing by the Security Communications Association\* (保安通信協会). Machine prototypes that pass such testing receive certificates. Each machine subsequently manufactured according to that prototype will also have a certificate showing its compliance with such testing. Purchasing machines from manufacturers that have received this approval reduces the risk of installing machines that do not comply with the legal requirements. A pachinko operator that intends to increase or change its number of machines, including the transfer of a machine to a different pachinko hall, must obtain prior written permission from the Prefectural Public Safety Commission. Also, before any machine is delivered, the prefectural police must certify the eligibility and compliance of the machine or replacement part, which is evidenced by a “Notice of Inspection” issued to the manufacturer (for new machines) or dealer (for second-hand machines). A similar notice is issued when machine parts are replaced. In addition, prior to operation of a new or second-hand machine, the pachinko hall must submit an application to the local police authority to request an inspection, upon completion of which an approval is granted and operation of the machine may begin. The police may inspect the machines at random after installation in the pachinko hall.

As we only purchase machines from manufacturers that submit their machine prototypes for testing by the Security Communications Association\* (保安通信協会), our pachinko and pachislot machines each have a certificate demonstrating compliance with those tests and have passed all inspections conducted by the relevant Prefectural Public Safety Commission during the Track Record Period.

### **3. Machine Pin Angle Maintenance and Adjustments**

Under Articles 9 and 20 of the Amusement Business Law, any “change” in a game machine installed in a pachinko hall requires the prior permission of the Public Safety Commission, except that, for minor changes, a notification after such minor change to the Public Safety Commission is sufficient.

Pin angles impact the distance between the ends of each pin, which in turn directly influences the likelihood that balls fall into the designated pockets that release bonus balls, trigger jackpots, or conversely, fall into the trap and become lost. Therefore, pin angles have a direct impact on payout ratios and ultimately gross payouts and revenue from pachinko and pachislot business. However, pin angles often shift during the normal course of play on a pachinko machine as the pachinko balls cascade down, through and collide into the pins in the playing field, which consequentially changes payout ratios of pachinko machines. As mentioned above, there are required ranges under law for payout ratios. Therefore, consistent with industry practice, we generally perform regular maintenance and adjustments on the angle of the pins of our pachinko machines in order to ensure full and consistent compliance with such required ranges on payout ratios.

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Our Japan Legal Adviser has advised us that such pin angle maintenance and adjustments will not constitute a “change” in a game machine that requires prior approval of or subsequent notice to the Public Safety Commission under Articles 9 and 20 of the Amusement Business Law, if the following three criteria are satisfied:

- (1) such pin angle maintenance and adjustments do not involve any bending or other modification of the shape of the pins;
- (2) the purpose of such pin angle maintenance and adjustments is to ensure compliance with the relevant required ranges and to maintain an average payout ratio for each pachinko machine that is in compliance with the relevant required ranges; and
- (3) the payout ratio of the pachinko machine for which the Maintenance and Adjustment of Pins has been completed remains within the required range.

Provided that the above three criteria are satisfied, pachinko hall operators may conduct such pin angle maintenance and adjustments anytime. Our Japan Legal Adviser, after conducting due diligence investigations, has confirmed that our Group has strictly complied with the above-mentioned three criteria in respect of our pin angle maintenance and adjustments and that they: (1) do not constitute a “change” in a game machine (whether major or minor) that requires prior approval of or subsequent notice to the Public Safety Commission under Articles 9 and 20 of the Amusement Business Law; and (2) are in full compliance with the Amusement Business Law and the Enforcement Ordinance.

#### **4. Adjustments of Payout Settings on Pachislot Machines**

A player wins bonus pachislot tokens if the images on the reels form a winning combination. The amount of payouts for a particular winning combination may differ from machine to machine, as each pachislot machine has adjustable payout settings. These settings are designed and pre-set solely by the machine manufacturer, come in-built into the machine and can only be adjusted by the operator. There are a range of payout settings made by the machine manufacturer, all of which must fall within the range required under the Enforcement Ordinance. For example, the number of tokens that a pachislot machine may pay out must be between 0.55 to 1.2 times the number of tokens put into play over 17,500 continuous plays. The machine manufacturer must ensure such payout settings are in full compliance with these required ranges in order for the machine to pass the examination on specifications etc. as required under the Amusement Business Law.

Consistent with industry practice, the Group regularly adjusts these payout settings of their pachislot machines in order to improve the business performance of their halls. Such adjustments of payout settings for our pachislot machines are in full compliance with the Amusement Business Law and the Enforcement Ordinance.

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### 5. Playing Costs, Prize Offerings and Prize Value

The Amusement Business Law and the Enforcement Ordinance regulate pachinko and pachislot playing costs, prize offerings and the upper limit of the value of prizes.

The Enforcement Ordinance prescribes the following maximum playing costs: (1) for pachinko machines, ¥4 per ball; and (2) for pachislot machines, ¥20 per token.

The maximum value of prizes offered is ¥9,600 (before consumption tax), and the types of prizes are generally limited to everyday general consumer goods, such as snacks, beverages, cigarettes and sundry household items. Our Japan Legal Adviser has confirmed that G-prizes, which include decorative cards with a small embedded piece of metal (such as gold) and coin shaped pendants of metal (such as gold), comply with this regulation. The value of balls or tokens required to collect a prize, as listed at the hall operator's prize exchange counter (which, at the hall operator's discretion, may reflect a mark-up over the cost of the prizes) must be equivalent to the value of the balls or tokens actually presented by the customer to exchange such prizes. In addition, in order for the prizes to meet the diverse range of expectations of customers, the hall must offer a wide range of items suitable for everyday use.

The Amusement Business Law prohibits Licence Holders from:

- (i) offering cash or securities as prizes;
- (ii) directly repurchasing from customers the prizes provided to them for cash or securities; and
- (iii) allowing customers to take pachinko balls, pachislot tokens or any other similar objects provided for playing pachinko or pachislot outside the hall.

Breaching any of these prohibitions under the Amusement Business Law may subject the pachinko operator to: (1) an administration sanction, namely business suspension for 20 to 180 days for (i) or (ii) above, and 5 to 40 days for (iii) above; and (2) a criminal sanction, namely imprisonment up to six months, as well as a fine of ¥1 million for breaches of (i) or (ii) above, and a fine of ¥500,000 for breaches of (iii) above. If the pachinko hall operator is a company, the hall operator itself will only be subject to the fine, while person(s) who committed the breach as its representative, attorney or employee will be subject to imprisonment and/or the fine.

### 6. Membership Systems

The Amusement Business Law prohibits Licence Holders from issuing any written documentation indicating that pachinko balls or pachislot tokens are being held for a customer. However, Article 16-9(2) of the Standards for the Interpretation and Operation of the Amusement Business Law issued by the National Police Agency provides that a membership card does not constitute written documentation of the hall holding balls or tokens for a customer if the number of such balls or tokens is not recorded on the card itself and is stored only on computers in the halls.

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Our Japan Legal Adviser has verbally consulted with the National Police Agency regarding the relevant provisions of the Amusement Business Law and Article 16-9(2) of the Standards for the Interpretation and Operation of the Amusement Business Law and has confirmed that our membership system complies with such laws and regulations, as it does not constitute written documentation of balls or tokens being held for customers since the number of balls or tokens held by a particular member is recorded only on our IT systems, and strictly not on the membership cards themselves.

### 7. Operating Hours

The Amusement Business Law restricts pachinko hall opening hours to the period from sunrise to 12:00 a.m. However, each prefecture is permitted to impose more stringent limits on operating hours and such additional restrictions are common. For example, halls in Tokyo are prohibited from operating between 11:00 p.m. and 10:00 a.m. the following day. There are no such additional restrictions in Fukushima Prefecture (福島県).

### 8. Environmental Regulations

Pursuant to Amusement Business Law and local ordinances, a Licence Holder must conduct business in such a way as not to cause noise or vibrations (limited to voices of people and other noises and vibrations that are part of operating a business) in the area surrounding the place of business that exceed the limits specified by prefectural ordinances.

The Amusement Business Law prescribes the following noise limits:

Region	Numerical Value		
	Daytime <sup>(1)</sup>	Evening <sup>(2)</sup>	Late Night <sup>(3)</sup>
(1) In areas specified by a particular prefecture in a prefectural ordinance as necessary to be especially quiet due to condensed housing or other similar areas . . . . .	55 decibels	50 decibels	45 decibels
(2) In areas specified by a particular prefecture in a prefectural ordinance as necessary not to have extreme noise due to condensed stores and other similar areas . . . . .	65 decibels	60 decibels	55 decibels
(3) Areas other than the areas in (1) and (2) above . . . . .	60 decibels	55 decibels	50 decibels

<sup>(1)</sup> "Daytime" means sunrise until sunset

<sup>(2)</sup> "Evening" means sunset until 12:00 a.m.

<sup>(3)</sup> "Late Night" means 12:00 a.m. until sunrise

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Also, under the Amusement Business Law, each pachinko hall must have the necessary equipment necessary to maintain illumination in each hall at more than 10 lux.

### **9. Advertising and Promotion Regulations**

The Amusement Business Law requires a Licence Holder to advertise or promote their business in such a way that it will not likely interfere with the peace and quiet surrounding the place of business. Under the Standards for the Interpretation and Operation of the Amusement Business Law published by the National Police Agency, the following methods of advertisement are likely to constitute an “interference with peaceful and quiet surroundings”:

- displaying sexually explicit or other adult material;
- advertising or promoting the illegal maintenance and adjustments of pins, illegal alterations of payout probabilities or otherwise encouraging customers’ “passion for gambling”; or
- noise levels beyond prescribed limits in public areas.

Failure to comply with such restrictions may result in various penalties, the most severe being a cancellation of the Operating Licence.

### **10. Prohibition on Minors**

Customers of pachinko halls must be at least 18 years of age. The Amusement Business Law provides that the Licence Holder must post a sign at the entrance to the place of business prohibiting entry by those under the age of 18. The sign must be posted so as to be easily seen by the public.

### **11. Building and Construction Regulations**

If a Licence Holder adds to the structure, makes structural changes or undertakes any other construction or changes to the facilities of the place of business, it must obtain prior permission from the Prefectural Public Safety Commission, with the exception of some specified minor changes.

Examples of structural or equipment modifications that require permission include extensive repairs to the place of business, changes to the location of guest rooms or floor space, and changes to the facilities such as adding walls or Japanese-style sliding doors to partition the interior of the place of business.

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We must comply with the Building Standard Act\* (建築基準法) of Japan (Act No. 201 of 1950), which requires any entity that constructs, substantially repairs or remodels, whether by itself or through a third-party contractor, any building that is larger than a certain scale or that is located in certain designated areas to obtain a certificate of prior confirmation for the planned construction, repair or remodeling as well as a certificate of completion thereof from an inspector appointed by the local authorities.

We must also comply with the City Planning Act\* (都市計画法) of Japan (Act No. 100 of 1968), which designates areas where certain usage is not allowed. No Operating Licence will be granted unless the pachinko hall is located in an area where it is permitted under the City Planning Act\* (都市計画法) (Act No. 100 of 1968).

### **E. AML**

The AML laws in Japan do not impose any specific obligations on pachinko hall operators. Unlike casino gaming, where customers purchase casino chips that have little or no intrinsic value but have high face values and have the potential to win or lose substantial sums in a short period of time, pachinko presents the opportunity over a relatively long period of time to win G-prizes that have a limited intrinsic value. The inherent mechanical limitations on pachinko ball and pachislot token dispensers render it extremely difficult for a pachinko player to obtain the number of pachinko balls or pachislot tokens necessary to redeem G-prizes of significant value in a short period of time. Thus, a customer seeking to launder even an insignificant amount of cash would need to spend at least several hours exchanging the cash into balls or tokens in addition to a considerably longer period of time putting such balls or tokens into play in a machine.

Furthermore, we do not allow customers to exchange balls or tokens into prizes without first putting them into play in the machines and we have put in place internal policies and internal control measures to prevent customers from violating this requirement. Our hall staff closely monitors the number of balls rented and the number of balls played in each of the machines. Any irregularities in such numbers are closely followed up by hall staff. Surveillance cameras are also installed in the pachinko hall, and hall staff patrol the pachinko hall during its operating hours in order to detect any suspicious activity. Thus, it would be inefficient and highly impractical to engage in money laundering activities through pachinko or pachislot. For more information on our AML procedures, see “Internal Controls and Anti-Money Laundering – Internal Controls on Money Laundering”.

### **F. LABOUR**

Act on Employment Promotion etc. of Persons with Disabilities\* (障害者の雇用の促進等に関する法律) of Japan (Act No. 123 of 1960) requires that at least 2% of the employees of any employers with more than 50 employees must be handicapped persons. Handicapped persons hired by a subsidiary will count towards this requirement for its holding companies.



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Also, the Industrial Safety and Health Act\* (労働安全衛生法) of Janpan (Act No. 57 of 1972) also provides standards for employers regarding the health and safety of employees including the employer's responsibilities and plans for accident prevention in the workplace. An employer with more than 50 employees must take reasonable measures to prevent workplace accidents, and must also make efforts to protect employees from the risk of passive smoking.

### **G. PERSONAL INFORMATION PROTECTION**

The Personal Information Protection Act requires that a Japanese business operator handling personal information must limit the use of personal information to the stated purpose and to properly manage the personal information in their possession, and forbids it from providing personal information to third parties without the consent of the individual.

### **H. INTELLECTUAL PROPERTY**

In Japan, patents are protected by the Patent Act and the Utility Model Act\* (実用新案法) of Janpan (Act No.123 of 1959). Designs are protected by the Design Act\* (意匠法) of Janpan (Act No. 125 of 1959), and trademarks by the Trademark Act\* (商標法) of Janpan (Act No. 127 of 1959). We must comply with these, in addition to various international treaties Japan has entered into, to maintain our intellectual property rights.

### **I. REGISTRATION AND TAX REPORTING**

A Japanese company must, upon incorporation, register with the legal affairs bureau and continue to update its details from time to time. It must also register with the local tax agency and must annually report on corporate tax, value added tax or other taxes.

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## HISTORY AND CORPORATE DEVELOPMENT

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### HISTORY AND BUSINESS DEVELOPMENT

#### Origin and founder

We have been operating pachinko halls for over 60 years in Northeast Honshu (本州島東北), Japan, stretching in cities, townships and suburban areas in Tokyo (東京都), the nation's capital, and the Northeast prefecture of Fukushima Prefecture (福島県) and their neighbouring and conjoining prefectures. We can trace our origin back to 1950, when Mr. Tetsuyoshi TANIGUCHI (谷口哲義)<sup>#</sup> (also known as Mr. JEONG Bokyoung (鄭福鎔)), our founder and the late father of our Chairman (the “**Founder**”), established our first pachinko hall in Mito City (水戸市), Ibaraki Prefecture (茨城県) in East Japan, captivating the booming popularity of pachinko and the prosperity of the Japan economy in the post-war era. Our Founder, who was a businessman of Korean heritage with no prior industry experience in pachinko hall operations when he founded our Group in 1950 with his and his siblings' personal savings, had since, together with generations of the Taniguchi family and the former and current members of our senior management, developed our Group into the fourth largest pachinko hall operator in Japan in 2013 (based on gross pay-ins<sup>1</sup>), according to EBI.

Since opening our door of our first pachinko hall to our customers in 1950, we have stood by our corporate slogan of “*Happy Time Creation*”, placing primary focus on customer experience and goodwill. This has allowed us to adapt to changing industry trends and customer preferences throughout our operating history and continually develop into an operator of 55 pachinko halls that we are today. The table below shows our key achievements and business milestones in our 60 years of heritage:

#### Business milestones

##### 1950s - 1960s *Beginning and early development*

Our Founder gradually expanded his small-scale operations by adding five pachinko halls in Tochigi Prefecture (栃木県) and Ibaraki Prefecture (茨城県), before settling into our current base of Fukushima Prefecture (福島県). In 1954, our first hall in Koriyama City (郡山市), Fukushima Prefecture (福島県) opened, utilising our pivotal brand of “*NIRAKU*”. At that time, our “*NIRAKU*” brand was used alongside its Japanese *kanji* characters “二樂”, which translates into “*double happiness*” and highlights the importance we place on customer satisfaction.

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<sup>1</sup> Represents the amount received from customers for rented pachinko balls and pachislot tokens.

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## HISTORY AND CORPORATE DEVELOPMENT

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Our Koriyama (郡山) hall was located within close proximity of the Koriyama train station, taking advantage of the high pedestrian and commuter flow and established commercial infrastructure in that area.

### ***Incorporation of Niraku Corporation***

In August 1969, to consolidate his ownership in and strengthen the corporate structure and management of our pachinko hall operations, our Founder incorporated our first corporate entity, Niraku Corporation (known as Niraku Shoji Corporation\* (二楽商事株式会社) at that time). Apart from our Founder, the other shareholders of Niraku Corporation, which remains as our primary operating subsidiary, were his siblings who had contributed funds to our foundation in 1950.

### **1970s - 1980s**

#### ***Redevelopment of the Koriyama (郡山) hall***

The year of 1979 saw the reconstruction and refurbishment of our station-front pachinko hall in Koriyama City (郡山市), Fukushima Prefecture (福島県), which was our flagship hall at that time. In July, the new station-front hall, re-named “*Daiwa* (大輪)”, reopened as an amusement complex where we operated the Koriyama City Hotel\* (郡山シティホテル) and a cafe in the same building. Based on our Directors’ industry knowledge, this multi-purpose business model of our station-front pachinko hall was the first of its kind in Japan.

#### ***Further expansion in Fukushima Prefecture (福島県)***

In the 1980s, we solidified our home base in Fukushima Prefecture (福島県) by opening four pachinko halls, three of which were located in Koriyama City (郡山市), throughout the prefecture. In particular, our Zukei (図景) hall, opened in October 1984, was our first venture into suburban areas.

### **1990 - 1998**

#### ***Tokyo (東京都) venture and metropolitan strategy***

The revision of the Amusement Business Law in 1985 which standardised the licensing regime and regulatory framework of pachinko and pachislot hall operations in Japan provided a favourable environment for our development in 1990s. Between 1990 to 1997, we opened ten new pachinko halls, most of which were located within cities precincts and densely populated areas. Capitalising on the continual urbanisation and economic development of the Tokyo (東京都) metropolitan area, we expanded into the capital by opening pachinko halls in Umeyashiki (梅屋敷) (November 1994), Nakano Shimbashi (中野新橋) (August 1992), Nagahara (長原) (September 1992) and Higashiyamato (東大和) (June 1996).

In August 1992, we opened our tenth hall in Nakano Shimbashi (中野新橋), Tokyo.

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## HISTORY AND CORPORATE DEVELOPMENT

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### ***Establishment of Koriyama (郡山) corporate complex***

In December 1991, we established a corporate complex dubbed “*Nikku Club*” in Koriyama City (郡山市). Our corporate complex was owned by our Founder and used as staff dormitory, meeting and corporate facilities. Having been transferred to Niraku Corporation in July 2000, we now utilise it as staff training facilities to ensure service and product consistency across our pachinko hall network.

### ***Succession***

In August 1998, our Founder retired and succeeded his chairmanship to Mr. Masataka TANIGUCHI (谷口晶貴), who remain as a member of the Taniguchi Consortium. At the same time, Niraku Corporation also adopted its current name of 株式会社ニラク.

## **1999 - 2005**

### ***Suburban strategy***

Under the leadership of Mr. Masataka TANIGUCHI (谷口晶貴), our hall opening strategy gradually shifted towards the suburban areas in Northeast Honshu (本州島東北), capitalising on the growing population of these areas, construction of highways linking Tokyo (東京都) and the Northeast prefectures of Japan and advancement of motorisation. Our suburban halls are typically larger in size and stocked with a greater variety of general prizes.

We embarked on our suburban strategy in August 2001 when our Sendai (仙台) hall in Miyagi Prefecture (宮城県) opened. This was followed by the addition of five pachinko halls in suburban areas in the year of 2001.

### ***Introduction of our “NIRAKU” brand***

The year of 2002 was important to our operations because our pivotal brand, “*NIRAKU*”, was re-introduced as we opened our Yoshihara (吉原) hall in Yamagata Prefecture (山形県). In the same year, we began to phase out the “*Daiwa* (大輪)” brand and other hall brands across our operations in favour of our “*NIRAKU*” brand. By the end of 2005, all but one hall of our Group utilised our “*NIRAKU*” brand and bear, in general, standardised interior and exterior decorations.

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## HISTORY AND CORPORATE DEVELOPMENT

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### ***Centralised management strategy***

We began to adopt a centralised management strategy in 1999, which leverages on the economies of scale and the considerable number of pachinko halls under our operations to centralise and standardise processes throughout our hall operations, including overall management, new hall development, machine procurement, prize procurement, IT systems, marketing, recruitment and training of full-time employees, internal audit and daily operations. Our centralised management strategy allowed us to simplify and expedite our new hall development process, as evidenced by the addition of 15 pachinko halls to our operations between 2002 and 2005.

In February 2003, we opened our 20th pachinko hall in Soma (相馬), Fukushima Prefecture (福島県).

### **2006 - 2010**

### ***Acceleration of expansion***

Following on the general industry trend of market consolidation across the pachinko industry and captivating the economic benefits of our centralised management strategy, we further expanded by opening 16 new pachinko halls in Tokyo (東京都), Fukushima Prefecture (福島県) and their neighbouring and conjoining prefectures. In particular, with the opening of Fukushima Sasakino (福島笹木野) hall, our 20th pachinko hall in Fukushima Prefecture (福島県) in November 2010, we fortified our market-leading position in the area. As at the Latest Practicable Date, we operated 20 pachinko halls in Fukushima Prefecture (福島県), more than any other pachinko operator in Japan, according to EBI.

In April 2010, our Chairman was elected as the representative director and president\* (代表取締役社長) of Niraku Corporation and became primarily in charge of the operation and management of our Group as a whole.

### ***Offering of low-cost pachinko***

In response to the changing popularity of pachinko, in 2007, we began to gradually offer a number of low-cost pachinko and pachislot machines, in addition to our traditional high playing cost games, across our operations in accordance with local demand and market conditions in each pachinko halls. We believe that it has enabled us to attract a broader range of customers, such as women, younger players and non-traditional pachinko players, adapt to the dynamic industry trend and further increase our market share.

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## HISTORY AND CORPORATE DEVELOPMENT

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### ***Corporate social responsibility***

In February 2010, we incorporated Merrist, a special subsidiary\* (特例子会社) of our Group to employ persons with disabilities in our hall cleaning, gardening and general administrative functions. Our initiatives in hiring disabled persons were recognised and awarded by the Ministry of Health, Labour and Welfare\* (厚労省).

### **2011 - 2013**

### ***Continual development***

Between 2011 and 2013, despite the short-term set-backs due to the aftermaths of the Great East Japan Earthquake in March 2011, we continued to grow steadily with the opening of four pachinko halls in Northeast Honshu (本州島東北).

In May 2011, we achieved a significant milestone as we opened our 50th pachinko hall in Koriyama Arai (郡山荒井), Fukushima Prefecture (福島県).

### ***Property activities***

In 2011, Nexia, our wholly-owned subsidiary, acquired two properties in Japan for leasing and renting to third party customers as office premises and residential apartment units. Income from our property activities provide us with an additional steady source of income.

### ***Incorporation of our Company***

In January 2013, our Company was incorporated and, having undergone a series of restructuring in April 2013, became the holding company of Niraku Corporation, allowing the Taniguchi Consortium to consolidate their control and ownership in our Group and streamline our corporate structure.

### **2014**

### ***Launch of Spanish restaurant franchise***

In October 2014, we opened our first Spanish restaurant in Tokyo under the brand “LIZARRAN”, which operated under a franchise agreement with a food and beverage company in Spain, the details of which are set out in “Business - Other Businesses”. Our ancillary business of Spanish restaurant allowed us to diversify our source of income and, by sending pachinko hall staff to attend periodic training at the restaurant, thereby enhancing our customer service standards.

We added two, two, one and nil pachinko halls, respectively, in each of the financial years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014. In addition, we added two pachinko halls to our network after the Track Record Period. Under the leadership of our Chairman and his predecessors, we have evolved from one pachinko hall in Koriyama City (郡山市) into a chain operation of 55 pachinko halls across Northeast Honshu (本州島東北) as at the Latest Practicable Date, providing entertainment to a variety of customers with different preferences, all managed and operated under one single corporate slogan - “Happy Time Creation”.

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## HISTORY AND CORPORATE DEVELOPMENT

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### SHAREHOLDING STRUCTURE

Our Company was incorporated on 10 January 2013 in Japan as the holding company of our Group. Over the course of our business history, our shareholding structure has remained stable. As the Taniguchi Consortium has maintained dominant control over our Company and our subsidiaries throughout the Track Record Period, we do not consider any of the shareholding changes in our Group during the Track Record Period was significant to us.

Immediately upon completion of the Global Offering, the members of the Taniguchi Consortium, who are associates of each other under the Listing Rules and persons acting in concert with each other within the meanings of the Takeovers Code, will together control approximately 69.5% of the voting rights in our Company and hence are our Controlling Shareholders. Our other Shareholders will be an Executive Officer, a former member of our senior management, the ESOA, as well as the participants of the Global Offering.

#### Taniguchi Consortium

The Taniguchi Consortium comprises our Chairman and a group of: (1) natural persons, who are family members of our Chairman; and (2) corporate entities, which are controlled by the family members of our Chairman. Certain Shares held by the Taniguchi Consortium are subject to trust arrangements. See “— Shareholding Structure — Taniguchi Consortium — Family trust arrangements” in this section below for details. The table below shows the identities of the members of the Taniguchi Consortium and their respective shareholding interests in our Company immediately prior to the completion of the Global Offering:

<b>Name</b>	<b>Immediately prior to the completion of the Global Offering</b>		<b>Relationship (for individuals)/ Shareholders and voting rights (for corporate entities)</b>
	<b>No. of Shares<sup>(1)</sup></b>	<b>Approximate shareholding percentage<sup>(6)</sup></b>	
<b><i>Taniguchi Consortium</i></b>			
Our Chairman . . . . .	212,980,460	23.8%	N/A
Tatsuo TANIGUCHI (谷口龍雄) <sup>(2)</sup> . . . . .	203,090,000	22.6%	Brother of our Chairman
Masataka TANIGUCHI (谷口晶貴) <sup>(3)</sup> . . . . .	145,820,000	16.3%	Brother of our Chairman
Yoshihiro TEI (鄭義弘) <sup>#</sup> (also known as JEONG Jungwung) <sup>(4)</sup> . . . . .	86,940,000	9.7%	Brother of our Chairman
Mitsuhiro TEI (鄭允碩) <sup>(5)</sup> . . . . .	27,485,000	3.1%	Nephew of our Chairman
Motohiro TEI (鄭元碩) <sup>(5)</sup> . . . . .	27,485,000	3.1%	Nephew of our Chairman

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## HISTORY AND CORPORATE DEVELOPMENT

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Name	Immediately prior to the completion of the Global Offering		Relationship (for individuals)/ Shareholders and voting rights (for corporate entities)
	No. of Shares <sup>(1)</sup>	Approximate shareholding percentage <sup>(6)</sup>	
Eijun TEI (鄭盈順) <sup>(5)</sup> . . . . .	27,485,000	3.1%	Niece of our Chairman
Rika TEI (鄭理香) <sup>(5)</sup> . . . . .	27,485,000	3.1%	Niece of our Chairman
Noriko KANESHIRO (金城徳子) . . . . .	11,500,000	1.3%	Sister of our Chairman
Jukki Limited* (有限会社十起) . . . . .	19,320,000	2.1%	<b>33.3%</b> by Ms. Yoshika TEI (鄭淑佳) <sup>#</sup> (also known as Ms. JEONG Sukka) <b>33.3%</b> by Mr. Kousei TEI (鄭光誠) <sup>#</sup> (also known as Mr. CHONG Gangsong) <b>33.3%</b> by Mr. Kiyokazu TANIGUCHI (谷口清和), each being a child of Mr. Tatsuo TANIGUCHI (谷口龍雄), who is entitled to exercise the voting rights as the sole director
Densho Limited* (有限会社伝承) . . . . .	11,500,000	1.3%	<b>25%</b> by Ms. Reika TANIGUCHI (谷口玲華) <b>25%</b> by Mr. Hidenori TANIGUCHI (谷口秀憲) <b>25%</b> by Ms. Yuryon TANIGUCHI (谷口有鈴) <b>25%</b> by Mr. Hirohide TANIGUCHI (谷口博秀), each being a child of our Chairman, who is entitled to exercise the voting rights as the sole director.
Echo Limited* (有限会社エコー) . . . . .	11,500,000	1.3%	<b>25%</b> by Mr. Mitsuhiro TEI (鄭允碩) <b>25%</b> by Mr. Motohiro TEI (鄭元碩) <b>25%</b> by Ms. Eijun TEI (鄭盈順) <b>25%</b> by Ms. Rika TEI (鄭理香), each being a nephew or niece of our Chairman. Mr. Mitsuhiro TEI (鄭允碩) is entitled to exercise the voting rights as the sole director.



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## HISTORY AND CORPORATE DEVELOPMENT

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Name	Immediately prior to the completion of the Global Offering		Relationship (for individuals)/ Shareholders and voting rights (for corporate entities)
	No. of Shares <sup>(1)</sup>	Approximate shareholding percentage <sup>(6)</sup>	
Daiki Limited* (有限会社大喜) .	11,500,000	1.3%	<b>50%</b> by Mr. Akinori TEI (鄭敬憲) <sup>#</sup> (also known as JEONG Kyeongheon) <b>50%</b> by Mr. Masahide TEI (鄭將英) <sup>#</sup> (also known as JEONG Jangyeong), each being a child of Mr. Yoshihiro TEI (鄭義弘) <sup>#</sup> (also known as JEONG Jungwung), who is entitled to exercise the voting rights as the sole director.
Hokuyo Kanko Limited* (有限会社北陽観光) . . . . .	5,750,000	0.7%	<b>25%</b> by Mr. Tatsunari TANIGUCHI (谷口辰成) <sup>#</sup> (also known as CHONG Jinsong) <b>25%</b> by Mr. Takanari TANIGUCHI (谷口喆成) <sup>#</sup> (also known as JEONG Cheolseong) <b>25%</b> by Mr. Toshinari TANIGUCHI (谷口才成) (also known as CHUNG Jaeseong) <b>25%</b> by Ms. Rika TANIGUCHI (谷口理華), each being a child of Mr. Masataka TANIGUCHI (谷口晶貴), who is entitled to exercise the voting rights as the sole director.
KAWASHIMA Co., Ltd.* (株式会社KAWASHIMA) . . . . .	1,380,000	0.1%	<b>33.3%</b> by our Chairman <b>33.3%</b> by Mr. Masataka TANIGUCHI (谷口晶貴) <b>33.3%</b> by Mr. Tatsuo TANIGUCHI (谷口龍雄), who is entitled to exercise the voting rights as the sole director
<b>Total:</b> . . . . .	831,220,460	<b>92.9%</b>	

*Notes:*

- (1) The numbers of Shares shown above have taken into account the sub-division of Shares approved by our Board on 16 March 2015, pursuant to which each issued Share of nil par value will be sub-divided into 230 Shares of nil par value with effect from 31 March 2015. See “— Corporate Structure and Development — Reorganisation” in this section below for details.

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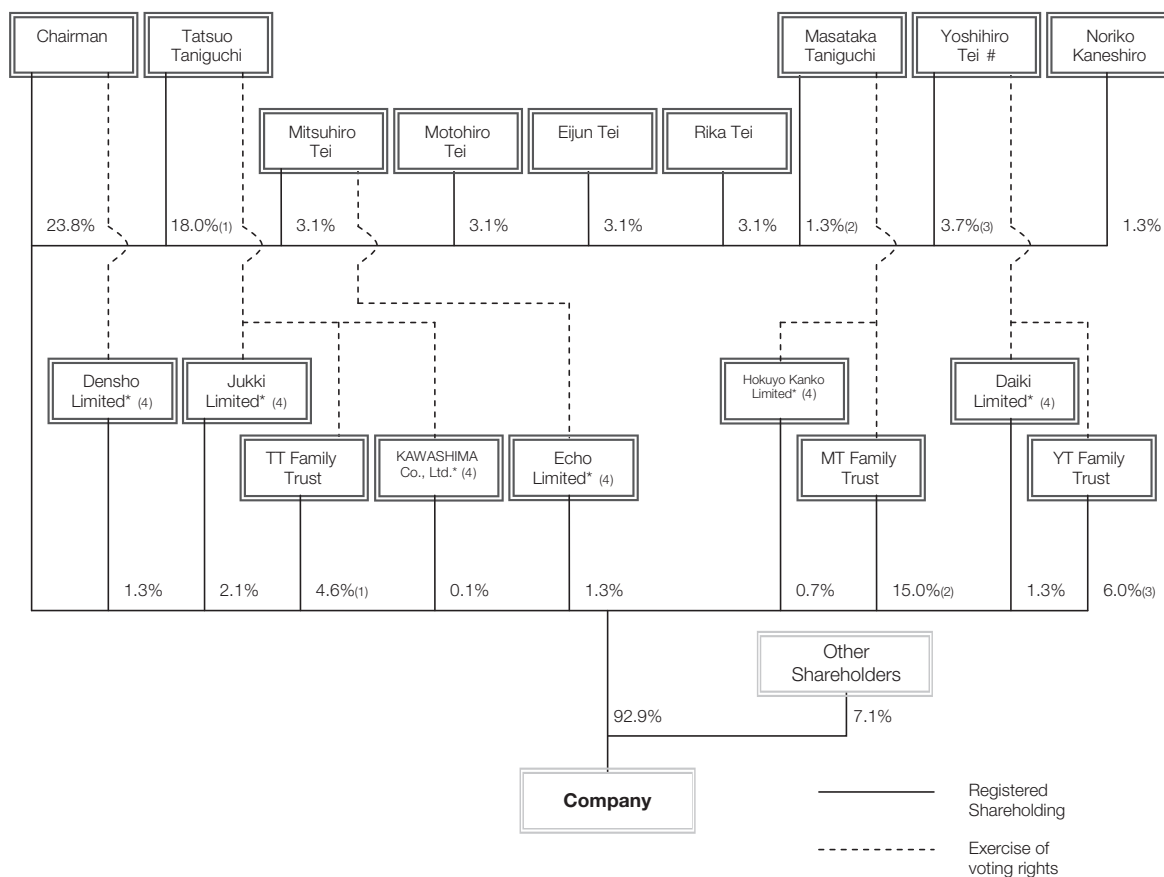
## HISTORY AND CORPORATE DEVELOPMENT

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- (2) The 203,090,000 Shares which Mr. Tatsuo TANIGUCHI (谷口龍雄) will be interested in include: (i) 161,690,000 Shares (representing approximately 18.0% of the total number of Shares issued by our Company immediately prior to the completion of the Global Offering) held in his own name and for his own benefit; and (ii) 41,400,000 Shares (representing approximately 4.6% of the total number of Shares issued by our Company immediately prior to the completion of the Global Offering) held by the TT Family Trust for the benefit of his children. Mr. Tatsuo TANIGUCHI (谷口龍雄) is entitled to exercise the voting rights attached to the Shares held by the TT Family Trust. See “— Shareholding Structure — Taniguchi Consortium — Family trust arrangements” in this section below for details.
- (3) The 145,820,000 Shares which Mr. Masataka TANIGUCHI (谷口晶貴) will be interested in include: (i) 11,442,500 Shares (representing approximately 1.3% of the total number of Shares issued by our Company immediately prior to the completion of the Global Offering) held in his own name and for his own benefit; and (ii) 134,377,500 Shares (representing approximately 15% of the total number of Shares issued by our Company immediately prior to the completion of the Global Offering) held by the MT Family Trust for the benefit of his children. Mr. Masataka TANIGUCHI (谷口晶貴) is entitled to exercise the voting rights attached to the Shares held by the MT Family Trust. See “— Shareholding Structure — Taniguchi Consortium — Family trust arrangements” in this section below for details.
- (4) The 86,940,000 Shares which Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) will be interested in include: (i) 33,580,000 Shares (representing approximately 3.7% of the total number of Shares issued by our Company immediately prior to the completion of the Global Offering) held in his own name and for his own benefit; and (ii) 53,360,000 Shares (representing approximately 6.0% of the total number of Shares issued by our Company immediately prior to the completion of the Global Offering) held by the YT Family Trust for the benefit of his children. Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) is entitled to exercise the voting rights attached to the Shares held by the YT Family Trust. See “— Shareholding Structure — Taniguchi Consortium — Family trust arrangements” in this section below for details.
- (5) Mr. Mitsuhiro TEI (鄭允碩), Mr. Motohiro TEI (鄭元碩), Ms. Eijun TEI (鄭盈順) and Ms. Rika TEI (鄭理香) inherited their interests in our Company from the estate of the late Mr. Tateo TANIGUCHI (谷口建雄), their father and a brother of our Chairman in October 2014.
- (6) Shareholding percentages are approximate and subject to rounding.

## HISTORY AND CORPORATE DEVELOPMENT

The table below shows an illustrative chart of the relationship among the members of the Taniguchi Consortium and their respective shareholding interests in our Company immediately prior to the completion of the Global Offering:



**Notes:**

- (1) The shareholding percentage of Mr. Tatsuo TANIGUCHI (谷口龍雄) shown above includes the Shares held in his own name and for his own benefit but excludes the Shares held by the TT Family Trust for the benefit of his children.
- (2) The shareholding percentage of Mr. Masataka TANIGUCHI (谷口晶貴) shown above includes the Shares held in his own name and for his own benefit but excludes the Shares held by the MT Family Trust for the benefit of his children.
- (3) The shareholding percentage of Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) shown above includes the Shares held in his own name and for his own benefit but excludes the Shares held by the YT Family Trust for the benefit of his children.
- (4) Each of Jukki Limited\* (有限会社十起), Densho Limited\* (有限会社伝承), Echo Limited\* (有限会社エコー), Daiki Limited\* (有限会社大喜), Hokuyo Kanko Limited\* (有限会社北陽観光), and KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA) is owned by the members of, and/or the family of the members of, the Taniguchi Consortium. See “— Shareholding Structure — Taniguchi Consortium” in this section above for the detailed shareholding structure of these corporate entities.
- (5) Shareholding percentages are approximate and subject to rounding.

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## HISTORY AND CORPORATE DEVELOPMENT

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The shareholding percentage of each member of the Taniguchi Consortium will be diluted by the 300,000,000 newly issued Offer Shares offered under the Global Offering, representing approximately 25.1% of our total number of issued Shares immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). See “— Corporate Structure” in this section below for the shareholding and corporate structure of our Group immediately upon completion of the Global Offering.

### ***Controlling Shareholders acting in concert***

By virtue of their intricate family and shareholding relationship, each member of the Taniguchi Consortium is an associate of each other under the Listing Rules. In addition, on 9 December 2014, each member of the Taniguchi Consortium has confirmed that they have been acting in concert, and intend to continue to act in concert, in exercising their control over and voting rights in our Group. As such, each member of the Taniguchi Consortium is also a person acting in concert with each other within the meanings of the Takeovers Code. See “Relationship with our Controlling Shareholders — Controlling Shareholders acting in concert” for details.

### ***Family trust arrangements***

As part of their efforts to succeed their legacy in our Group, Mr. Tatsuo TANIGUCHI (谷口龍雄), Mr. Masataka TANIGUCHI (谷口晶貴) and Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as Mr. JEONG Jungwung) created the following trust arrangements for the benefit of their respective children:

- (a) *the TT Family Trust* - in October 2014, Mr. Tatsuo TANIGUCHI (谷口龍雄) transferred 180,000 Shares registered in his own name to three of his children, namely Ms. Yoshika TEI (鄭淑佳)<sup>#</sup> (also known as Ms. JEONG Sukka), Mr. Kousei TEI (鄭光誠)<sup>#</sup> (also known as Mr. CHONG Gangsong) and Mr. Kiyokazu TANIGUCHI (谷口清和) with the intention to create the TT Family Trust at a later date. On 23 October 2014, the TT Family Trust was established pursuant to a trust agreement entered into between SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行) (as the trustee and assignee\* (受託者)) and each of the beneficiaries (as the assignors and beneficiaries\* (委託者兼受益者)), who have entered into a separate agreement with Mr. Tatsuo TANIGUCHI (谷口龍雄) to appoint him as the protector and person having the right to exercise voting rights\* (議決權行使指図権者) of the TT Family Trust;
- (b) *the MT Family Trust* - in September 2014, Mr. Masataka TANIGUCHI (谷口晶貴) transferred 584,250 Shares registered in his own name to three of his children, namely Mr. Tatsunari TANIGUCHI (谷口辰成)<sup>#</sup> (also known as Mr. CHONG Jinsong), Mr. Takanari TANIGUCHI (谷口喆成)<sup>#</sup> (also known as Mr. JEONG Cheolseong) and Mr. Toshinari TANIGUCHI (谷口才成)<sup>#</sup> (also known as Mr. CHUNG Jaeseong) with the intention to create the MT Family Trust at a later date. On 21 October 2014, the MT Family Trust was established pursuant to a trust agreement entered into between SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行) (as the trustee and assignee\*

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## HISTORY AND CORPORATE DEVELOPMENT

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(受託者) and each of the beneficiaries (as the assignors and beneficiaries\* (委託者兼受益者)), who have entered into a separate agreement with Mr. Masataka TANIGUCHI (谷口晶貴) to appoint him as the protector and person having the right to exercise voting rights\* (議決権行使指図権者) of the MT Family Trust; and

- (c) *the YT Family Trust* - in October 2014, Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) transferred 232,000 Shares registered in his own name to two of his children, namely Mr. Akinori TEI (鄭敬憲)<sup>#</sup> (also known as JEONG Kyeongheon) and Mr. Masahide TEI (鄭將英)<sup>#</sup> (also known as JEONG Jangyeong), with the intention to create the YT Family Trust at a later date. On 22 October 2014, the YT Family Trust was established pursuant to a trust agreement entered into between SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行) (as the trustee and assignee\* (受託者)) and each of the beneficiaries (as the assignors and beneficiaries\* (委託者兼受益者)), who have entered into a separate agreement with Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) to appoint him as the protector and person having the right to exercise voting rights\* (議決権行使指図権者) of the YT Family Trust;

The Shares under the TT Family Trust, MT Family Trust and the YT Family Trust were transferred to and are registered under the name of SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行), a licensed trust bank\* (信託銀行) in Japan, and held for the benefit of the beneficiaries. The trust Shares may not be transferred, or disposed of, by the trustee and/or the beneficiaries without the prior written consents of Mr. Tatsuo TANIGUCHI (谷口龍雄), Mr. Masataka TANIGUCHI (谷口晶貴) and Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) (as the case may be) if such transfer or disposal would contravene the Listing Rules.

Each of the TT Family Trust, MT Family Trust and the YT Family Trust can only be terminated with the prior consent of the trustee and the beneficiaries. The proper law of the TT Family Trust, MT Family Trust and the YT Family Trust is the law of Japan and the provisions thereof are therefore subject to, and enforceable under, the laws of Japan. The terms of the trust agreements, including termination, addition, removal or exclusion of beneficiaries, variation of trust powers and appointment or removal or trustee, may only be amended with the prior consent of the trustee and the beneficiaries.

In addition, so long as the person having the right to exercise voting rights\* (議決権行使指図権者) is in office, the trustee and the beneficiaries shall not interfere with the management of the business of our Group and the voting rights attached to the trust Shares.

Our Japan Legal Adviser has confirmed that the arrangements under the TT Family Trust, MT Family Trust and the YT Family Trust are in compliance with the relevant laws and regulations in Japan.

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## HISTORY AND CORPORATE DEVELOPMENT

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### Other Shareholders

Apart from the Taniguchi Consortium, our Company is also held by an Executive Officer, a former member of our senior management and the ESOA. The table below shows the identities of these Shareholders and their respective shareholding interests in our Company immediately prior to the completion of the Global Offering:

Name	Immediately prior to the completion of the Global Offering		Relationship (for individuals) / Shareholders and voting rights (for corporate entities)
	No. of Shares <sup>(1)</sup>	Approximate shareholding percentage <sup>(3)</sup>	
<b>Other Shareholders</b>			
Hidenori MOROTA (諸田英模) .....	1,380,000	0.1%	Former Director of our Company; an Executive Officer of our Company; current director of Niraku Corporation
Tadamitsu YAMASHITA (山下忠光) .....	1,380,000	0.1%	Former member of our senior management; not a connected person of our Company
ESOA .....	61,870,000	6.9%	No shareholder <sup>(2)</sup> ; Mr. Takashi ENDO (遠藤孝), the president* (理事長) of the ESOA, who is not a connected person of our Company, is entitled to exercise the voting rights

*Notes:*

- (1) The numbers of Shares shown above have taken into account the sub-division of Shares approved by our Board on 16 March 2015, pursuant to which each issued Share of nil par value will be sub-divided into 230 Shares of nil par value with effect from 31 March 2015. See “— Corporate Structure and Development — Reorganisation” in this section below for further details.
- (2) As a partnership\* (組合) established under the Civil Code, the concept of shareholding does not apply to the ESOA. Under the rules of the ESOA, the president\* (理事長) of the ESOA is entitled to exercise the voting rights attached to the Shares held by the ESOA, notwithstanding that the members of the ESOA may, from time to time, give specific instructions to the said president\* (理事長) on voting.
- (3) Shareholding percentages are approximate and subject to rounding.

Save for Mr. Hidenori MOROTA (諸田英模), each of the Shareholders listed above is not a connected person of our Company. Mr. Hidenori MOROTA (諸田英模) was a Director prior to 25 June 2014 and remains as an Executive Officer of our Company and a current director of our subsidiary, Niraku Corporation, and is therefore a connected person of our Company by virtue of Rule 14A.07(2) of the Listing Rules and a core connected person of our Company under Rule 1.01 of the Listing Rules. As such, the interests held by Mr. Hidenori MOROTA (諸田英模) will not be counted towards the public float of our Company upon Listing for the purpose of Rule 8.08(1)(a) of the Listing Rules.

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## HISTORY AND CORPORATE DEVELOPMENT

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### ***Employee Stock Ownership Association***

The ESOA, established on 16 January 2001 as an employee benefit scheme for our Group's employees, is administered by a board of administrators\* (理事) and chaired by a president\* (理事長), who is in turn nominated and elected by the members of the ESOA. Daiwa Securities Capital Market Co., Ltd.\* (大和証券株式会社) is the transfer agent of the ESOA and administers its register of members. The ESOA has the following salient features:

- (a) *Membership and contribution:* Membership of the ESOA is only open for application by all current employees of our Group. All members of the ESOA are required to make a monthly contribution of a fixed amount ranging from ¥1,000 to ¥50,000, depending on their ranking within our human resources structure. Monthly contributions are deducted directly from the members' monthly payroll. Members may also elect to make special contribution out of their employment bonus monies paid by our Group. As an employment benefit, our Group makes certain special contributions per month to each member of the ESOA. Save and except for the said special contributions, our Group and our Controlling Shareholders do not owe any obligation to the ESOA and its members.
- (b) *Entitlement rights:* Pro-rata to the aggregate amounts of each member's contribution and our Group's special contribution, the board of administrators\* (理事) of the ESOA calculates and grants a certain amount of entitlement rights to the members of the ESOA. The entitlement rights confer solely a claim to payment in cash, not a right to claim or purchase Shares in our Company. None of the entitlement rights granted by the ESOA is convertible into Shares or any other form of securities in our Company.
- (c) *Subscription of new Shares:* The ESOA makes use of the monies contributed by our Group and its members to subscribe for Shares either by: (i) acquiring Shares from existing Shareholders, subject to mutual commercial agreement; (ii) trading on the Stock Exchange upon Listing, subject to all relevant requirements under the Listing Rules; or (iii) issue and allotment of new Shares, subject to all applicable laws and regulations in Hong Kong and Japan.
- (d) *Dividends:* Dividends associated with the Shares held by the ESOA are assigned to the members pro-rata to the number of entitlement rights under their names and returned to the members upon cancellation of their membership.
- (e) *Exercise of entitlement rights:* Entitlement rights under the ESOA can be exercised by: (i) voluntary cancellation of membership on the part of a member; or (ii) automatic cancellation of membership when a member ceases to be qualified as a current employee of our Group for whatever reason. Upon exercise of the entitlement rights, a member may claim a payment which is the aggregate of the exercise values of the entitlement rights and the aggregate monetary amount of contribution attributable to

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## HISTORY AND CORPORATE DEVELOPMENT

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him/her. There is no fixed exercise value of the entitlement rights. The exercise value is determined by the board of administrators\* (理事) of the ESOA from time to time. Entitlement rights held by a cancelled membership will be distributed to the remaining members pro-rata to their existing number of entitlement rights.

- (f) *Voting rights and ranking*: The president\* (理事長) of the ESOA has the discretion to exercise the voting rights attached to the Shares held by the ESOA, notwithstanding that the members may from time to time give specific instructions to him on voting. The Shares held by the ESOA rank *pari passu* in all respects with the existing Shares in issue. Hence, there are no specific rights in favour of the ESOA attached to the Shares held by the ESOA.

As at the Latest Practicable Date, there were 269,000 Shares registered under the name of the ESOA, corresponding to 269,000 entitlement rights granted to the current employees of our Group. No member of the Taniguchi Consortium, Director, Chief Executive Officer, Executive Officer or core connected person of our Company is allowed to participate in the ESOA. Given that none of Mr. Takashi ENDO (遠藤孝), the current president\* (理事長) of the ESOA, and the members of the ESOA is a core connected person of our Company, the Shares held by the ESOA will be counted towards the public float of our Company upon Listing for the purpose of Rule 8.08(1)(a) of the Listing Rules.

The ESOA confers entitlement to payment in cash only but not Shares or other form of securities in our Company. The exercise of the entitlement rights will not dilute the issued share capital of our Company. As such, Chapter 17 of the Listing Rules does not apply to the ESOA which, in substance, is a scheme of deferred compensation to our employees.

Apart from its interests in our Company, ESOA was also interested in approximately 6.5% of the total number of issued shares in NI, which were distributed to ESOA as a result of our Reorganisation. These interests had been repurchased by NI from the ESOA and as at the Latest Practicable Date, the ESOA had no interest in NI or the Excluded Group as a whole.

## CORPORATE STRUCTURE AND DEVELOPMENT

### Group companies

As at the Latest Practicable Date, our Group comprised our Company, one directly wholly-owned subsidiary and two indirectly wholly-owned subsidiaries, all of which were incorporated in Japan. Our Company was incorporated as the holding company of our Group, with Niraku Corporation conducting our primary business of pachinko hall operations and Nexia and Merrist carrying out our ancillary business functions. There was no significant shareholding change in the companies comprising our Group during the Track Record Period with the Taniguchi Consortium maintaining dominant control over our Group. Set out below is the corporate history of our Group:



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## HISTORY AND CORPORATE DEVELOPMENT

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### **Our Company**

Our Company was incorporated on 10 January 2013 in Japan with a core capital\* (資本金) of ¥6,600. Upon incorporation, the number of Shares authorised to be issued by our Company was 20,000,000 Shares, of which one class-A share and one common Share\* (普通株式) were issued and allotted to our Chairman. Under our current articles of incorporation\* (定款) (which will cease to be effective and be replaced by our Articles on the Listing Date), transfers of our Shares must be approved by our Board of Directors. Transfers of our Shares will become free of restriction or limitation and shall not require Board or Shareholders approval upon Listing.

Our Company is an investment holding company incorporated with an aim to: (i) create a holding corporate structure for our Group; and (ii) consolidate the Taniguchi Consortium's ownership of and control over our Group. On 1 April 2013, our Board of Directors approved a share swap\* (株式交換) (the "**Niraku Share Swap**") with Niraku Corporation, pursuant to which our Company acquired 3,153,000 shares, 478,000 shares, 6,000 shares, 6,000 shares, 6,000 shares and 246,000 shares in Niraku Corporation, respectively, from the Taniguchi Consortium, Mr. Tateo TANIGUCHI (谷口建雄) (the late brother of our Chairman), Mr. Hidenori MOROTA (諸田英模), Mr. Hisaharu KASHIHARA (榎原久治), Mr. Tadamitsu YAMASHITA (山下忠光) and the ESOA, each being a shareholder of Niraku Corporation at that time, in consideration for which our Company issued and allotted the same number of Shares in our Company to these shareholders on a pro-rata basis.

As a result of the Niraku Share Swap: (i) Niraku Corporation became a wholly-owned subsidiary of our Company; (ii) the Taniguchi Consortium, Mr. Tateo TANIGUCHI (谷口建雄), Mr. Hidenori MOROTA (諸田英模), Mr. Hisaharu KASHIHARA (榎原久治), Mr. Tadamitsu YAMASHITA (山下忠光) and the ESOA became our Shareholders; (iii) our core capital\* (資本金) was increased to ¥10 million; and (iv) our total number of issued Shares was increased to one class-A share and 3,895,001 common Shares\* (普通株式).

The one class-A share held by our Chairman entitled him to certain special rights, such as veto power to the appointment and removal of Directors. On 9 December 2014, our Board resolved to cancel the one class-A share and convert it into one newly issued common Share\* (普通株式), which was allotted to our Chairman on the same day. As a result, our total number of issued Shares became 3,895,002 common Shares\* (普通株式). As at the Latest Practicable Date, there was no class-A share in our issued share capital and, pursuant to our Articles, our Company is not allowed to issue any other class of shares other than our common Shares\* (普通株式) after the Listing.

On 1 October 2014, our Board of Directors approved ESOA's acquisitions of 6,000 Shares and 17,000 Shares (representing approximately 0.1% and 0.3% of our total number of issued Shares at that time) from Mr. Hisaharu KASHIHARA (榎原久治) and Mr. Tatsuo TANIGUCHI (谷口龍雄), respectively. The respective consideration of these acquisitions were ¥19.8 million and ¥42.5 million, calculated based on arm's length negotiation between the parties.

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## HISTORY AND CORPORATE DEVELOPMENT

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On 22 October 2014, our Board of Directors approved the inheritance of 119,500 Shares each by Mr. Mitsuhiro TEI (鄭允碩), Mr. Motohiro TEI (鄭元碩), Ms. Eijun TEI (鄭盈順) and Ms. Rika TEI (鄭理香) from the estate of the late Mr. Tateo TANIGUCHI (谷口建雄) at nil consideration.

The composition of our Shareholders and their respective shareholding number and percentage have not changed since 22 October 2014, except for: (i) the sub-division of each issued Share of nil par value into 230 Shares of nil par value which will take effect on 31 March 2015; (ii) the increase of the number of Shares authorised to be issued by our Company to 2,000,000,000 Shares which take effect on 31 March 2015; (iii) the transfers of the trust Shares under the TT Family Trust, MT Family Trust and YT Family Trust as described in “— Shareholding structure — Taniguchi Consortium — Family trust arrangements” in this section above; and (iv) the cancellation and conversion of class-A share mentioned above.

Mr. Hiroshi BANNAI (坂内弘) was an external Director\* (社外取締役) of our Company prior to his retirement in October 2014.

### ***Niraku Corporation***

Niraku Corporation is our principal operating subsidiary primarily engaged in the operation and management of pachinko halls. Niraku Corporation also operates a Spanish restaurant in Tokyo (東京都) under the brand “LIZARRAN” and a hotel above one of our pachinko hall in Koriyama City (郡山市), Fukushima Prefecture (福島県), both of which are our ancillary businesses and are insignificant when compared to our business and financial position as a whole. Under the articles of incorporation\* (定款) of Niraku Corporation, transfer of the shares in Niraku Corporation must be approved by its board of directors.

Incorporated on 27 August 1969 by our Founder, Niraku Corporation was the operating and holding company of our Group until the incorporation of our Company. As at 1 April 2011 (being the commencement date of the Track Record Period), Niraku Corporation had a core capital\* (資本金) of ¥257 million. The number of Shares authorised to be issued by Niraku Corporation was 20,000,000 shares and the total number of issued shares was 5,346,000 shares at that time. Niraku Corporation commenced its business upon incorporation in August 1969.

As at 1 April 2011 (being the commencement date of the Track Record Period), Niraku Corporation was owned as to approximately 76.6%, 13.3%, 0.4%, 0.1%, 0.1%, 0.1% and 4.6%, respectively, by the Taniguchi Consortium, Mr. Tateo TANIGUCHI (谷口建雄), Mrs. Kyoko TANIGUCHI (谷口京子) (the mother of our Chairman), Mr. Hidenori MOROTA (諸田英模), Mr. Hisaharu KASHIHARA (榎原久治), Mr. Tadamitsu YAMASHITA (山下忠光) and the ESOA. Apart from these shareholders, Niraku Corporation was also owned as to approximately 4.8% by 13 institution shareholders, which are banks, financing institutions and machine suppliers in Japan with which our Group has a long and established business relationship. None of these institutional shareholders was a core connected person of our Company, our Controlling Shareholders or each other throughout the period during which they were interested in Niraku Corporation’s shares.

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## HISTORY AND CORPORATE DEVELOPMENT

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On 10 August 2012, the board of directors of Niraku Corporation resolved to repurchase 250,000 shares in Niraku Corporation, representing the entire interests held by the aforementioned 13 institutional shareholders at a consideration of ¥2,400 per share, calculated based on arm's length negotiation among the parties. The 250,000 repurchased shares became treasury stock\* (自己株式) of Niraku Corporation, which had been cancelled by 31 March 2013. The primary objective of this share repurchase was to consolidate the ownership of Niraku Corporation as a family business.

On 1 February 2013, the board of directors of Niraku Corporation approved the acquisition of 1,040,000 Shares in aggregate from Mr. Tatsuo TANIGUCHI (谷口龍雄), Mr. Masataka TANIGUCHI (谷口晶貴) and Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as Mr. JEONG Jungwung), each being a member of the Taniguchi Consortium, as well as Mr. Tateo TANIGUCHI (谷口建雄) and Mrs. Kyoko TANIGUCHI (谷口京子) by our Company, at a consideration of ¥3,300 per share, calculated by an independent accountant appointed by the parties based on the valuation of Niraku Corporation. On 20 February 2013, as a further effort to streamline the ownership structure of our Group, the board of directors of Niraku Corporation resolved to repurchase an aggregate of 161,000 shares from Densho Limited\* (有限会社伝承), Echo Limited\* (有限会社エコー), Daiki Limited\* (有限会社大喜) and Hokuyo Kanko Limited\* (有限会社北陽観光), each being a member of the Taniguchi Consortium, at a consideration of ¥3,300 per share, calculated by an independent accountant appointed by the parties based on the valuation of Niraku Corporation. All repurchased shares became treasury stock\* (自己株式) of Niraku Corporation, which had been cancelled by 31 March 2013. Upon completion, Niraku Corporation was owned as to approximately 63.9%, 9.7%, 21.1%, 0.1%, 0.1%, 0.1% and 5.0%, respectively, by the Taniguchi Consortium, Mr. Tateo TANIGUCHI (谷口建雄), our Company, Mr. Hidenori MOROTA (諸田英模), Mr. Hisaharu KASHIHARA (榎原久治), Mr. Tadamitsu YAMASHITA (山下忠光) and the ESOA. These changes in the shareholding of Niraku Corporation were effected in preparation for the Niraku Share Swap.

On 1 April 2013, the board of directors of Niraku Corporation approved the Niraku Share Swap and the acquisition 3,895,000 of shares in Niraku Corporation from its then existing shareholders. Taking into the account the 1,040,000 shares our Company was already interested in immediately prior to the implementation of the Niraku Share Swap, Niraku Corporation became a wholly-owned subsidiary of our Company. As a result of these restructuring steps, the total number of shares issued by Niraku Corporation was reduced to 4,935,000 shares, all of which were wholly-owned by our Company.

Niraku Corporation has remained as our wholly-owned subsidiary since 1 April 2013. Mr. Masataka TANIGUCHI (谷口晶貴) was a director of Niraku Corporation until his retirement in September 2012. Mr. Tatsuo TANIGUCHI (谷口龍雄) was also a director of Niraku Corporation until his retirement in September 2014. The current directors of Niraku Corporation are our Chairman, Mr. Hidenori MOROTA (諸田英模) (our Executive Officer) and Mr. Akinori OHISHI (大石明徳) (our Executive Officer).

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## HISTORY AND CORPORATE DEVELOPMENT

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### **Nexia**

Nexia is a property holding and investment company. Its property portfolio includes land and premises on which our Group operates pachinko halls, an office building for lease to third party tenants and a residential apartment building for lease to third party tenants. Under the articles of incorporation\* (定款) of Nexia, transfer of the shares in Nexia must be approved by its shareholders.

Nexia was incorporated on 19 June 2009 in Japan with a core capital\* (資本金) of ¥30 million. On incorporation, the number of shares authorised to be issued by Nexia was 20,000 shares. As at 1 April 2011, the commencement date of the Track Record Period, a total of 3,000 shares were issued by Nexia, which were held as to approximately 25.0%, 25.0%, 25.0%, 3.0%, 2.0%, 10.0% and 10.0%, respectively, by Hokuyo Kanko Limited\* (有限会社北陽観光), Jukki Limited\* (有限会社十起), Densho Limited\* (有限会社伝承), KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA), Mr. Tatsuo TANIGUCHI (谷口龍雄) (each being a member of the Taniguchi Consortium), Mr. Yoshie SAKAMOTO (坂本純衛) (an independent third party), Mr. Minoru NISHINO (西野実) (an independent third party) and Nino Kensetsu Co., Ltd.\* 株式会社ニイノ建設 (an independent third party). Nexia commenced business upon incorporation in 2009.

On 24 May 2012, the shareholders of Nexia have resolved to repurchase 300 shares in Nexia, representing approximately 10% of the total number of Shares issued by Nexia at that time, from Nino Kensetsu Co., Ltd.\* (株式会社ニイノ建設), an independent third party, at an aggregate consideration of ¥12 million, calculated based on the valuation of Nexia conducted by an independent valuer. The 300 acquired shares became treasury stock\* (自己株式) of Nexia, which had been cancelled by 31 March 2013. The primary objective of this share repurchase was to consolidate the ownership of Nexia by the Taniguchi Consortium.

On 24 May 2012, the shareholders of Nexia approved the acquisition of 300 shares, representing approximately 10% of the total number of shares issued by Nexia at that time, by KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA) from Mr. Minoru NISHINO (西野実), an independent third party. The consideration was ¥12 million in aggregate, calculated based on the valuation of Nexia conducted by an independent valuer.

On 13 June 2014, the shareholders of Nexia approved the acquisition of 60 shares in Nexia, representing approximately 2.2% of the total number of shares issued by Nexia at that time, by Mr. Tatsuo TANIGUCHI (谷口龍雄) from Mr. Yoshie SAKAMOTO (坂本純衛) (an independent third party). The consideration was ¥3 million in aggregate, calculated based on arm's length negotiation of the parties. Upon completion, Nexia became collectively wholly-owned by the members of the Taniguchi Consortium.

As part of our Reorganisation, our Company acquired all issued shares in Nexia because (i) the activities of Nexia are directly related to our core business of pachinko and pachislot hall operations; and (ii) Nexia was commonly controlled by the members of the Taniguchi Consortium.

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## HISTORY AND CORPORATE DEVELOPMENT

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On 9 December 2014, each member of the Taniguchi Consortium has confirmed that they have been acting in concert, and intend to continue to act in concert, in exercising their control over and voting rights in Nexia. See “Relationship with our Controlling Shareholders — Controlling Shareholders acting in concert” for details.

Mr. Tatsuo TANIGUCHI (谷口龍雄) has remained as a director of Nexia throughout the Track Record Period and thereafter.

### ***Merrist***

Merrist is primarily engaged in the employment of disabled people to provide gardening, cleaning and general management services in our pachinko halls. Under the Act on Employment Promotion etc. of Persons with Disabilities\* (障害者の雇用の促進等に関する法律) of Japan (Act No. 123 of 1960), a minimum of 2% of a private enterprise in Japan with 50 or more employees is required to be persons with disabilities. Under the articles of incorporation\* (定款) of Merrist, transfer of the shares in Merrist must be approved by its shareholders.

Merrist was incorporated on 24 February 2010 with a core capital\* (資本金) of ¥5 million. The number of shares authorised to be issued by Merrist was 2,500 shares, of which 500 shares were issued and allotted to Niraku Corporation. Merrist has remained as a wholly-owned subsidiary of Nexia since its incorporation. Merrist commenced business upon incorporation in 2010.

Mr. Hideyuki SUETSUGU (末次秀行), a former member of our senior management who is not a connected person of our Company, was a director of Merrist from 24 February 2010 to 3 September 2012. Our Chairman is now the sole director of Merrist.

### ***Dissolved entity***

Jin Corporation\* (株式会社仁) (“*Jin Corporation*”) was a stock company\* (株式会社) incorporated in Japan with limited liability on 15 June 2012. The primary business activity was the operation of a pachinko hall in Hanyu City (羽生市), Saitama Prefecture (埼玉県). Jin Corporation was incorporated as a wholly-owned subsidiary of Asuka Corporation\* (株式会社アスカ), an independent third party as a result of a company split\* (分割) to effect the acquisition of the said pachinko hall by our Group. On 15 June 2012, Niraku acquired the entire number of issued shares in Jin Corporation from Asuka Corporation\* (株式会社アスカ) at a consideration of ¥820 million, calculated based on arm’s length negotiation of the parties.

To consolidate the pachinko and pachislot hall operations functions of our Group into Niraku Corporation, we effected an absorption-type merger\* (吸収合併) under the Japan Companies Act between Niraku Corporation (as the surviving entity) and Jin Corporation (as the absorbed entity) on 1 October 2013. As at the Latest Practicable Date, Jin Corporation had been dissolved and its registration had been cancelled. Our Japan Legal Adviser has confirmed that, as provided under the Japan Companies Act, all assets, liabilities, contractual rights and obligations had been transferred to Niraku Corporation. Customers of Jin Corporation are now served by our Group.

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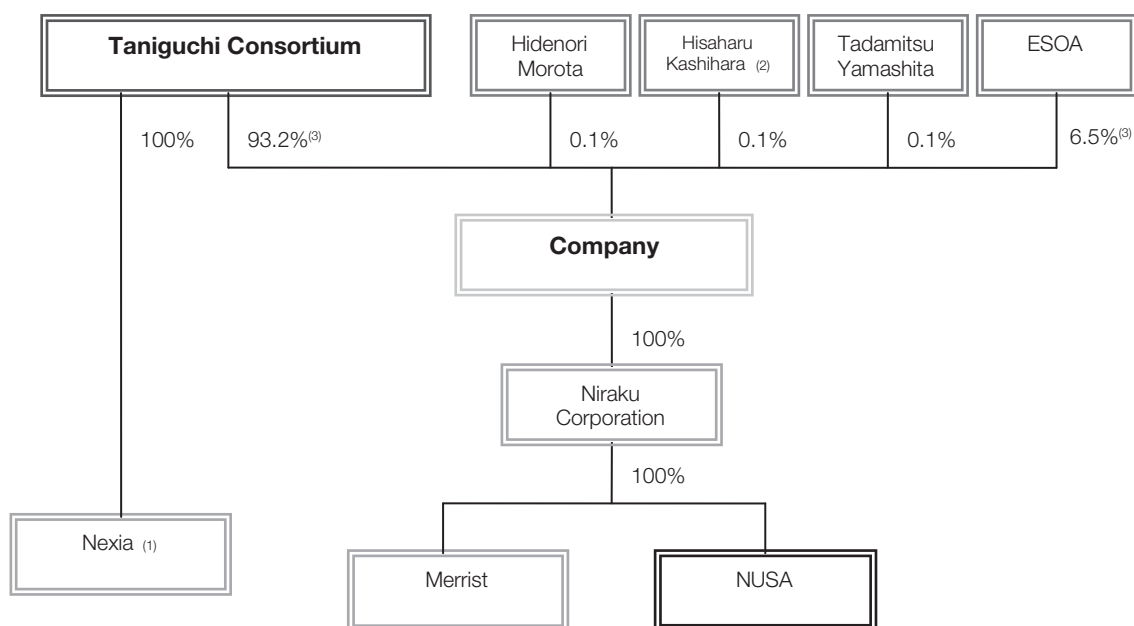
## HISTORY AND CORPORATE DEVELOPMENT

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Our Directors have confirmed that there is no matter with respect to the dissolution of Jin Corporation that would otherwise need to be brought to the attention of the Stock Exchange and our potential investors.

### Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the Listing. The chart below shows the simplified shareholding and corporate structure of our Group immediately prior to the implementation of our Reorganisation:



*Notes:*

- (1) Nexia was owned as to approximately 27.8%, 27.8%, 27.8%, 11.1% and 5.5%, respectively, by Jukki Limited\*<sup>(有限会社十起)</sup>, Densho Limited\*<sup>(有限会社伝承)</sup>, Hokuyo Kanko Limited\*<sup>(有限会社北陽観光)</sup>, KAWASHIMA Co., Ltd.\*<sup>(株式会社KAWASHIMA)</sup> and Mr. Tatsuo TANIGUCHI (谷口龍雄), each being a member of the Taniguchi Consortium.
- (2) Mr. Hisaharu KASHIHARA (榎原久治) is a former member of our senior management who is not a connected person of our Company. He is no longer a Shareholder of our Company. Our Board of Directors approved the transfer of his entire shareholding interests in our Company to the ESOA on 1 October 2014.
- (3) Our Board of Directors approved the transfer of 17,000 Shares (representing approximately 0.3% of our total number of issued Shares at that time) from Mr. Tatsuo TANIGUCHI (谷口龍雄) to the ESOA on 1 October 2014.
- (4) Shareholding percentages are approximate and subject to rounding.

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## HISTORY AND CORPORATE DEVELOPMENT

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Our Reorganisation involved the following steps:

### **Company split**

On 17 September 2014, our Company effected an incorporation-type company split\* (新設分割) (the “**Company Split**”) pursuant to the Japan Companies Act. The primary aim of the Company Split was to: (i) consolidate the business and assets of, and incidental to, our Group’s pachinko and pachislot hall operations under our Company; and (ii) establish the Excluded Group as the holding entities of the prospective private business ventures of our Controlling Shareholders.

The Company Split was effected as follows:

- (i) **incorporation of NI:** NI was incorporated in Japan on 17 September 2014 to serve as the holding entity of the Excluded Group and the prospective private business ventures of the Taniguchi Consortium that are unrelated to our core business of pachinko and pachislot hall operations.
- (ii) **transfer of tangible assets to NI:** as part of the Company Split, we on 17 September 2014 transferred certain tangible assets totalling ¥1,110 million, which, among others, included the entire issued stock of NUSA. No fixed asset, liability, contractual obligation and employee was transferred to NI as part of the Company Split.
- (iii) **Distribution of the shares in NI to our Shareholders:** as part of the Company Split, our Company on 17 September 2014 declared and distributed a distribution in specie\* (配当) out of our surplus\* (剰余金) by way of distributing 3,895,002 shares in NI, representing our entire number of issued shares, to our Shareholders whose names appear on our Share Register on 11 September 2014.

Each holder of the common Shares\* (普通株式) of our Company received shares in NI in an amount equivalent to the number of common Shares\* (普通株式) they held as at 11 September 2014. Given that there was only one class of shares in the share capital of NI, our Chairman, who held one class-A share in our Company as at 11 September 2014, received one share in NI. As a result, all existing Shareholders as at 11 September 2014 became the shareholders of NI in proportion to the number of Shares they held in our Company as at 11 September 2014.

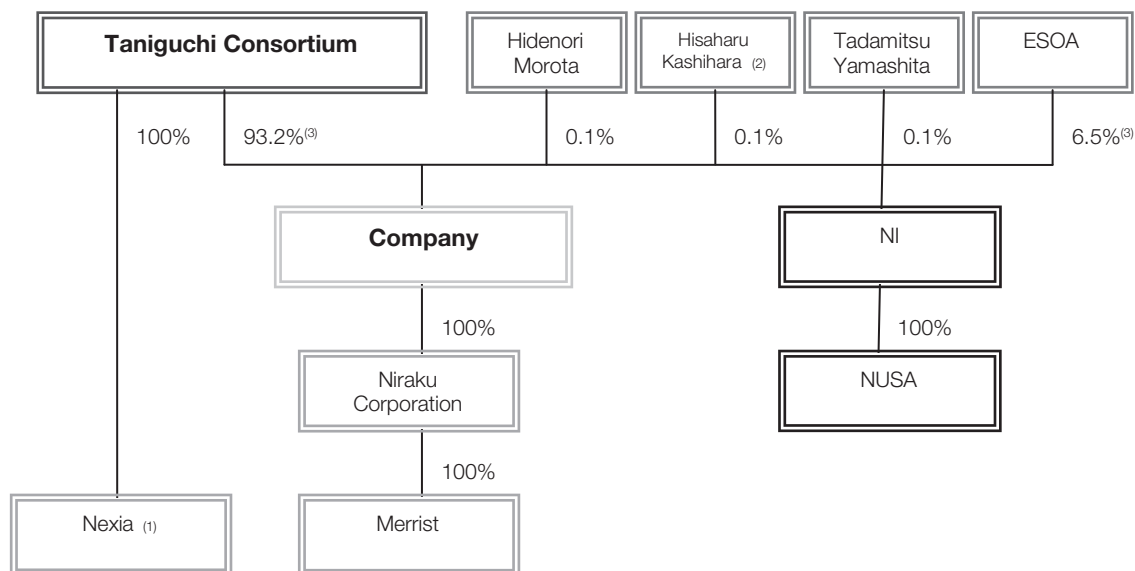


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## HISTORY AND CORPORATE DEVELOPMENT

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The Company Split was filed with the Legal Affairs Bureau\* (法務局) of Japan on 17 September 2014 and completed and became effective on the same day. The table below shows the simplified shareholding and corporate structure of our Group immediately upon completion of the Company Split:



*Notes:*

- (1) Nexia was owned as to approximately 27.8%, 27.8%, 27.8%, 11.1% and 5.5%, respectively, by Jukki Limited\* (有限会社十起), Densho Limited\* (有限会社伝承), Hokuyo Kanko Limited\* (有限会社北陽観光), KAWASHIMA Co., Ltd.\*(株式会社KAWASHIMA) and Mr. Tatsuo TANIGUCHI (谷口龍雄), each being a member of the Taniguchi Consortium.
- (2) Mr. Hisaharu KASHIHARA (榎原久治) is a former member of our senior management who is not a connected person of our Company. He is no longer a Shareholder of our Company. Our Board of Directors approved the transfer of his entire shareholding interests in our Company to the ESOA on 1 October 2014.
- (3) Our Board of Directors approved the transfer of 17,000 Shares (representing approximately 0.3% of our total number of issued Shares at that time) from Mr. Tatsuo TANIGUCHI (谷口龍雄) to the ESOA on 1 October 2014.
- (4) Shareholding percentages are approximate and subject to rounding.

### **Acquisition of the Nakano Property**

Immediately prior to the implementation of our Reorganisation, our Chairman, Mr. Tatsuo TANIGUCHI (谷口龍雄) and Mr. Masataka TANIGUCHI (谷口晶貴) were the joint owners of a piece of land and the premises thereon (together, the “**Nakano Property**”) located in Nakano-ku (中野区), Tokyo (東京都), on which we operate one of our pachinko halls.



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## HISTORY AND CORPORATE DEVELOPMENT

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On 9 September 2014, Niraku Corporation acquired the Nakano Property from our Chairman, Mr. Tatsuo TANIGUCHI (谷口龍雄) and Mr. Masataka TANIGUCHI (谷口晶貴) in consideration for ¥382 million in cash. The consideration was based on the valuation of the Nakano Property conducted by an independent valuer.

### ***Acquisition of Nexia***

Immediately prior to the implementation of our Reorganisation, Nexia was owned as to approximately 27.8%, 27.8%, 27.8%, 11.1% and 5.5%, respectively, by Jukki Limited\* (有限会社十起), Densho Limited\* (有限会社伝承), Hokuyo Kanko Limited\* (有限会社北陽観光), KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA) and Mr. Tatsuo TANIGUCHI (谷口龍雄), each being a member of the Taniguchi Consortium.

On 29 September 2014, Nexia acquired an aggregate of 2,550 shares in Nexia from Jukki Limited\* (有限会社十起), Densho Limited\* (有限会社伝承), Hokuyo Kanko Limited\* (有限会社北陽観光) and KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA) in consideration for ¥497,344,350 in aggregate. The consideration was calculated based on the valuation of Nexia conducted by an independent property valuer. The 2,550 shares became treasury stock\* (自己株式) in the capital of Nexia.

On 29 September 2014, Niraku Corporation acquired 150 shares in Nexia from Mr. Tatsuo TANIGUCHI (谷口龍雄) in consideration for ¥29,255,550. The consideration was calculated based on the valuation of Nexia conducted by an independent valuer. On 30 September 2014, Nexia cancelled the 2,550 treasury stock\* (自己株式) in its capital, as a result of which Nexia became an indirectly wholly-owned subsidiary of our Company.

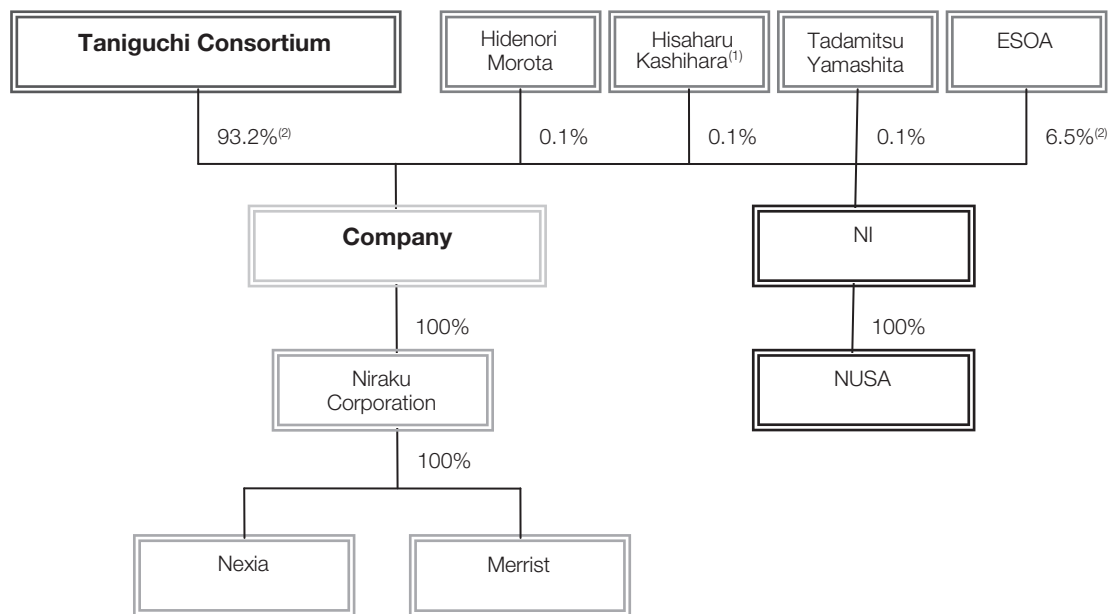
Except for our Reorganisation, we have not conducted any acquisition, disposal and/or merger that is considered material by us in terms of the amount of consideration paid/received on the assets, revenue and profit contribution of the target throughout our operating history.

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## HISTORY AND CORPORATE DEVELOPMENT

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Our Reorganisation was completed on 30 September 2014. Our Japan Legal Adviser has confirmed that: (i) all steps of our Reorganisation have been properly and legally completed and settled in compliance with the relevant laws and regulations in Japan; and (ii) any required approvals from and registrations with the relevant Japan authorities have been duly obtained and completed. The chart below shows the simplified shareholding and corporate structure of our Group and the Excluded Group immediately upon completion of our Reorganisation:



*Notes:*

- (1) Mr. Hisaharu KASHIHARA (榎原久治) is a former member of our senior management who is not a connected person of our Company. He is no longer a Shareholder of our Company. Our Board of Directors approved the transfer of his entire shareholding interests in our Company to the ESOA on 1 October 2014.
- (2) Our Board of Directors approved the transfer of 17,000 Shares (representing approximately 0.3% of our total number of issued Shares at that time) from Mr. Tatsuo TANIGUCHI (谷口龍雄) to the ESOA on 1 October 2014.
- (3) Shareholding percentages are approximate and subject to rounding.

### **Companies excluded from our Reorganisation**

NI and NUSA, the current and prospective principal business of which is clearly delineated from our pachinko and pachislot hall operations, were excluded from our Group as a result of our Reorganisation. See “Relationship with our Controlling Shareholders – Independence from our Controlling Shareholders – No competition and clear delineation of business” for details of the current and prospective business activities of NI and NUSA and the reasons for excluding these companies from our Group.

## HISTORY AND CORPORATE DEVELOPMENT

### **Further changes to our capital structure**

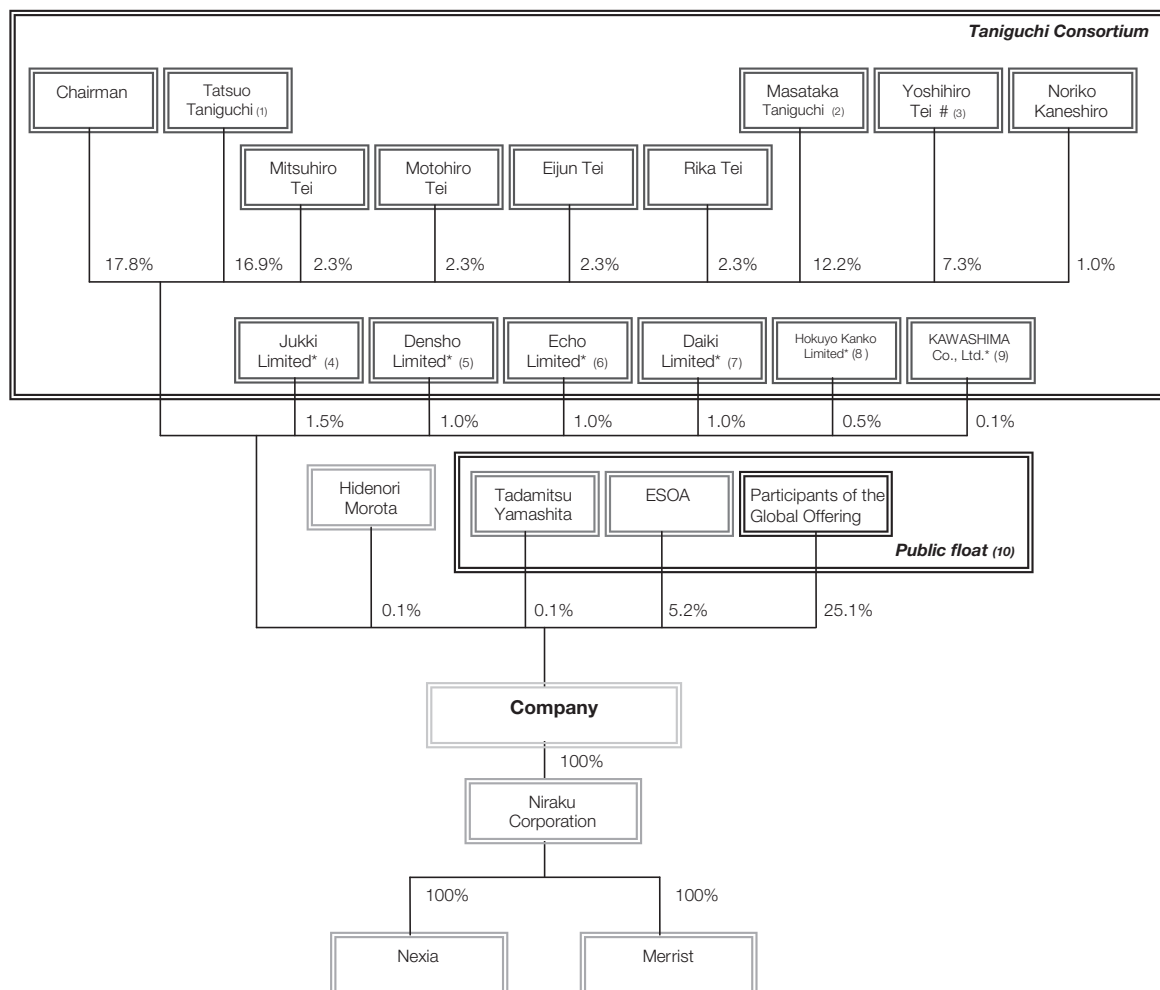
On 16 March 2015, our Board has resolved that: (i) each issued Share of nil par value be sub-divided into 230 Shares of nil par value with effect from 31 March 2015 so that our total number of issued Shares will increase from 3,895,002 Shares to 895,850,460 Shares; and (ii) for the purpose of such sub-division, the number of Shares authorised to be issued by our Company be increased from 20,000,000 Shares to 2,000,000,000 Shares with effect from 31 March 2015.

### **No Pre-IPO investment**

There was no pre-IPO investor to our Group before and after our Reorganisation within the meanings of the Listing Rules.

### **CORPORATE STRUCTURE**

The chart below shows the shareholding and corporate structure of our Group immediately upon completion of the Global Offering:



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## HISTORY AND CORPORATE DEVELOPMENT

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Notes:

- (1) The shareholding percentage of Mr. Tatsuo TANIGUCHI (谷口龍雄) shown above includes 13.5% held in his own name and for his own benefit, and 3.4% held by the TT Family Trust, to which he is entitled to exercise the voting rights attached.
- (2) The shareholding percentage of Mr. Masataka TANIGUCHI (谷口晶貴) shown above includes 1.0% held in his own name and for his own benefit, and 11.2% held by the MT Family Trust, to which he is entitled to exercise the voting rights attached.
- (3) The shareholding percentage of Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) shown above includes 2.8% held in his own name and for his own benefit, and 4.5% held by the YT Family Trust, to which he is entitled to exercise the voting rights attached.
- (4) Jukki Limited\*(有限会社十起) is collectively wholly-owned by the children of Mr. Tatsuo TANIGUCHI (谷口龍雄), who is entitled to exercise the voting rights as its sole director.
- (5) Densho Limited\*(有限会社伝承) is collectively wholly-owned by the children of our Chairman, who is entitled to exercise the voting rights as its sole director.
- (6) Echo Limited\*(有限会社エコー) is collectively wholly-owned by the nephews of our Chairman. Mr. Mitsuhiro TEI (鄭允碩) is entitled to exercise the voting rights as its sole director.
- (7) Daiki Limited\*(有限会社大喜) is collectively wholly-owned by the children of Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as Mr. JEONG Jungwung), who is entitled to exercise the voting rights as its sole director.
- (8) Hokuyo Kanko Limited\*(有限会社北陽観光) is collectively wholly-owned by the children of Mr. Masataka TANIGUCHI (谷口晶貴), who is entitled to exercise the voting rights as its sole director.
- (9) KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA) is held as to approximately 33.3%, 33.3% and 33.3%, respectively, by our Chairman, Mr. Masataka TANIGUCHI (谷口晶貴) and Tatsuo TANIGUCHI (谷口龍雄), who is entitled to exercise the voting rights as its sole director.
- (10) Mr. Tadimitsu YAMASHITA (山下忠光), Mr. Takashi ENDO (遠藤孝) (the current president\* (理事長) of the ESOA who is entitled to exercise the voting rights attached to the Shares held by the ESOA) and each member of the ESOA is not a core connected person of our Company under the Listing Rules. Hence, the Shares held by Mr. Tadimitsu YAMASHITA (山下忠光) and the ESOA are counted towards the public float of our Company for the purpose of Rule 8.08(1)(a) of the Listing Rules.
- (11) Shareholding percentages are approximate and subject to rounding.

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## BUSINESS

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### OVERVIEW

We operate pachinko halls in Japan where customers can play pachinko and pachislot, which are recreational arcade games characterised by an element of chance. We were the fourth largest pachinko hall operator in Japan in 2013 (based on gross pay-ins<sup>1</sup>), according to EBI. The pachinko industry is highly fragmented, with over 3,800 operators running 11,893 halls as at 31 December 2013. In 2013, our market share based on gross pay-ins was 1.3%, while our market share based on the number of halls in Japan was 0.5%. Ever since we opened our first pachinko hall in 1950, all our operations have been focused in Northeast Honshu (本州島東北), Japan, covering ten prefectures that have a total population of approximately 47.4 million (representing 37.7% of the total population in Japan), as at 31 December 2013, according to EBI.

Pachinko is one of the most popular forms of entertainment for adults in Japan and has a long history, dating back to the early twentieth century. **Pachinko** is similar in appearance to a pinball machine and is played by firing pachinko balls in rapid succession into a playing field, with the aim of firing them into designated pockets that release bonus pachinko balls. Playing costs range from ¥0.5 to ¥4 per ball (before consumption tax). **Pachislot** is similar in appearance to a traditional slot machine and is played by inserting pachislot tokens to spin its image reels, with the aim of stopping the reels at a winning matching combination, which will release bonus pachislot tokens. Playing costs range from ¥2 to ¥20 per token (before consumption tax).

Generally, players aim to collect the most number of balls and tokens, which can either be saved for subsequent visits, or more notably, exchanged for prizes. At our halls, customers can exchange two types of prizes, namely: (1) **general prizes** (including our private brand products), which are generally the types of goods sold in convenience stores, including cigarettes, food and snacks, household goods and drinks; and (2) **G-prizes**, which are decorative cards with a small embedded piece of metal (such as gold) or coin-shaped pendants of metal (such as gold), that can be subsequently sold by customers to independent G-prize buyers for cash. Our Japan Legal Adviser has confirmed that our pachinko and pachislot hall operations do not constitute “gambling” under, and do not violate, the Penal Code.

Our halls can be categorised into suburban halls and urban halls.

1. **Suburban halls** are our primary business focus, representing 91.5%, 91.9%, 92.3% and 91.9% of our revenue from pachinko and pachislot business for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014. They are typically located in suburban areas (such as the suburbs of Fukushima Prefecture (福島県)), require car access and provide parking spaces (including for the disabled). Generally, customers are the self-employed (such as farmers and fishermen), factory workers and retirees, and these halls are generally larger with around 400 to 700 machines. Gross pay-ins from peak operation hours (which are typically from 12:00 noon to 5:00 p.m.) on average accounted for approximately 45% of the daily gross pay-ins of our suburban halls during the Track Record Period.

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<sup>1</sup> Represents the amount received from customers for rented pachinko balls and pachislot tokens.

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2. **Urban halls** are typically located in urban areas (such as Tokyo (東京都)) and within walking distance of train stations. Generally, customers are full-time employees of urban areas and these halls are generally smaller with around 200 to 300 machines. Gross pay-ins from peak operation hours (which are typically from 5:00 p.m. to 10:00 p.m.) on average accounted for approximately 41% of the daily gross pay-ins of our urban halls during the Track Record Period.

We first opened our door to pachinko players in 1950. Our corporate slogan is “*Happy Time Creation*” and we place our primary focus on customer experience and goodwill. We have strived to adapt to changing industry trends and customer preferences throughout our operating history and have developed into an operator of 55 pachinko halls, consisting of 46 suburban halls and 9 urban halls, as at the Latest Practicable Date.

Fukushima Prefecture (福島県) is our most important strategic location, in which our headquarters are located and we have the most number of halls (namely, 20 halls as at the Latest Practicable Date), machines and also revenue generation, accounting for over 40% of our total revenue during the Track Record Period. We will continue to leverage our strengths and expand our operations in Northeast Honshu (本州島東北) (especially Fukushima Prefecture (福島県) and its neighbouring and conjoining prefectures) in a cost-efficient and strategic manner. In particular, we expect to open a new hall in Fukushima Prefecture (福島県) by December 2015 with over 1,000 machines, which will become our largest hall and is expected to become one of the largest halls in Fukushima Prefecture (福島県).

The pachinko industry has a dominant presence in the gaming sector in Japan (which, as defined by our independent industry consultant, EBI, consists of pachinko, bicycle-racing, auto-racing, horse-racing and lottery), having comprised 78.0% or ¥18.8 trillion (in terms of gross revenue) of the gaming sector in Japan in 2013. Even though the industry has been shrinking since the early 2000’s, it still remains relatively favourable to large hall operators (such as ourselves) due to the resulting consolidation. According to EBI, small hall operators (that operate less than ten halls) have been dropping out of the industry and are expected to continue to do so, while large hall operators (that operate at least ten halls) have greater financial and other resources and are able to benefit from economies of scale, including operational cost efficiencies, and have been benefiting by absorbing the freed up market share. The opportunities for us from this consolidation are compounded by the high industry fragmentation and the fact that there are very few hall operators that are of our size. As at 31 December 2013, there were over 3,800 operators, of which 95.8% were small hall operators with less than 10 halls and we were one of the only eight hall operators with over 50 halls in Japan.

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## BUSINESS

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### STRENGTHS

We believe that we have a number of key strengths that differentiate our business from that of our competitors, including the following:

**Strong market position (especially in Fukushima Prefecture (福島県)), largely due to economies of scale and brand recognition gained from our strategic geographical focus in Northeast Honshu (本州島東北) and our centralised management strategy**

We were the fourth largest pachinko hall operator in Japan (based on gross pay-ins) in 2013 and the largest pachinko hall operator in Fukushima Prefecture (福島県) (based on the total number of halls) as at 31 December 2013, according to EBI. The pachinko industry is highly fragmented and there are very few pachinko hall operators that are of our size. As at 31 December 2013, there were over 3,800 operators, of which 95.8% were small hall operators with less than 10 halls and we were one of the only eight hall operators with over 50 halls. As at the Latest Practicable Date, we operated 55 pachinko halls, all of which are strategically located in Northeast Honshu (本州島東北). Since we opened our first hall in 1950, our strategy has always been to focus hall openings exclusively in Northeast Honshu (本州島東北), specifically Fukushima Prefecture (福島県), Tokyo (東京都) and their neighbouring and adjoining prefectures.

Through our centralised management strategy, we centralise and standardise processes throughout our hall operations, including overall management, new hall development, machine procurement, prize procurement, IT systems, marketing, recruitment and training of full-time employees, internal audit and daily operations. Our centralised management strategy, together with our strategic geographical focus, has allowed us to benefit from economies of scale via significant operational efficiencies and cost savings, especially as our fixed overhead is shared among our 55 operating halls, resulting in a substantially lower fixed overhead per hall compared to our smaller competitors. Ultimately, these have greatly contributed to our strong market position.

For example, we are able to source general prizes in large volumes and variety at relatively lower costs. As a market leader, we are also able to gain priority from machine suppliers over smaller hall operators for purchases of new machines. This allows us to remain highly competitive by consistently being able to be among the first to acquire the newest machine models, which is essential to maintaining high player traffic as new machine models typically generate the most player interest. Further, our geographical focus has allowed our 55 halls to be managed efficiently, as we are readily able to: (1) conduct regular physical internal meetings among managers based in different business locations; (2) rotate our area managers and hall managers to other areas and halls in order to boost their management skills; and (3) transfer our machines between our halls and warehouses in a cost and time efficient manner and in response to changing consumer preferences.

In addition, our centralised management strategy and tactical geographic focus have helped us establish strong brand recognition, thus, further improving our player traffic and customer loyalty. For example, we are able to ensure the consistency of the key features of all of our halls (thus, reinforcing our brand image), while our operational efficiencies and cost savings allow us

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to operate relatively large halls, which are generally more attractive to players. Also, we believe we are able to consistently provide a professional level of hospitality and better gaming experience for customers, as we centralise training for our full-time employees through the use of our training facilities located near our headquarters in Fukushima Prefecture (福島県) and structured training and rotation programs.

Also, as mentioned above, despite the pachinko industry having been shrinking since the early 2000's, the industry remains economically favourable to large hall operators (such as ourselves). Small hall operators have been dropping out of the industry and are expected to continue to do so. Large hall operators (such as ourselves) have greater financial and other resources and are able to benefit from economies of scale, including operational cost efficiencies, and have been benefiting by absorbing the freed up market share. The opportunities for us from this consolidation are compounded by the high industry fragmentation and the fact that there are very few hall operators whose operations are as big as ours. We believe we will particularly benefit from this trend in Fukushima Prefecture (福島県) and its neighbouring prefectures, where our leading position has also served as an increasingly effective barrier of entry.

### **Efficient management structure supported by sophisticated information technology systems that enable us to anticipate and respond quickly to changes and trends in customer preferences**

We have implemented a multi-layered hierarchical management structure for our hall operations, consisting of our 55 hall managers (each responsible for overseeing the daily operations of one particular hall), our 13 area managers (each responsible for overseeing the daily operations of three to six halls), our division manager (based in our headquarters and generally oversees the operations of all our halls) and our Directors. Generally, each manager reports directly to the relevant manager in the next higher rank.

Since customer preferences and trends vary among different areas, our area and hall managers' on-site presence in each area and hall allows us to collect localised market information, such as approximate payout ratios achieved by competing operators, and player acceptance towards new machines, enabling us to make timely business decisions which are responsive to changing conditions in each geographical market. We also utilise sophisticated information technology systems to provide us with real-time data regarding useful business metrics such as machine utilisation for each type of machine as well as the business performance of each machine in our halls. They have allowed us to closely monitor our hall performances and also to perform timely analyses on our operational efficiency. For example, by utilising our information technology systems, we are able to assess the popularity of each machine and to adjust our procurement strategy accordingly. We also monitor the daily business performance of machines and use this information to determine the pin angle maintenance and adjustment required for our pachinko machines and also the ideal adjustments of payout settings for our pachislot machines, in order to ensure full compliance with the required ranges on payout ratios under law. See “— Pachinko and Pachislot Hall Operations — Pachinko halls — Machine maintenance and the business performance of our halls” in this section below for details.



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### **Effective internal controls and procedures to ensure our compliance with applicable laws and regulations and to detect and prevent fraud, cheating and money laundering activities**

We have implemented internal controls and procedures to ensure that our pachinko and pachislot hall operations are conducted professionally and in full compliance with applicable laws and regulations, especially the Amusement Business Law and its ancillary prefectural local regulations. Our internal control measures enable us to detect irregularities and unusual activities or trends in the transactions that take place in our pachinko halls which, if detected, are reported to our Directors and senior management for investigation, remediation and, if necessary, reporting to the relevant authorities in Japan.

We believe that money laundering risks associated with our pachinko and pachislot hall operations are inherently low, due to the stringent laws and regulations and machine limitations pertaining to the number of pachinko balls or pachislot tokens that can be played as well as won at our pachinko and pachislot machines. Even though there are currently no specific obligations imposed on pachinko hall operators under the AML laws of Japan, we have voluntarily established various policies and procedures designed to identify and mitigate money laundering in our pachinko and pachislot hall operations. Such policies and procedures have been designed, implemented and operating with reference to the guidance letter titled “International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation” issued by the Financial Action Task Force in 2012, and also the Amusement Business Law. See “Internal Controls and Anti-Money Laundering” and “Appendix IV — Summary of the Review of Anti-Money Laundering Procedures, Systems and Controls” for details.

In particular, the Japanese government has been continuously regulating the pachinko industry for compliance with the Amusement Business law or its ancillary prefectural local regulations, through direct enforcement. Every year, the Japanese government (through the National Police Agency) announces a list of administrative dispositions imposed on pachinko halls (including suspensions or even revocations of operating licences) due to discovered breaches of the Amusement Business Law or its ancillary prefectural local regulations. For example, in 2010, 2011 and 2012, there were a total of 705, 696 and 817 administrative dispositions imposed on pachinko halls, of which five, four and six were for suspensions of operating licences, and seven, five and seven were for revocations of operating licences, respectively. Most of the administrative dispositions (especially the suspensions and revocations of operating licences) were imposed against halls owned by small hall operators who generally have fewer resources to establish effective internal controls and procedures. This creates opportunities for larger hall operators (such as ourselves) that have implemented proper internal controls, as: (1) our smaller competitors are being pushed out, thus, freeing up additional market share for us and our expansion; and (2) an overall improved compliance by hall operators with applicable laws and regulations will ultimately improve the overall reputation of the pachinko industry as a whole, thus, potentially attracting new customers.

We believe our internal controls and procedures are effective, as: (1) our Japan Legal Adviser has confirmed that we have been in compliance in all material respects with all applicable Japan laws, rules and regulations during the Track Record Period and up to the Latest

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Practicable Date. See “— Legal Proceedings and Compliance” for details on our compliance with applicable laws and regulations, as confirmed by our Japan Legal Adviser; and (2) our AML Consultant has confirmed that nothing has come to their attention that causes them to believe that the AML controls put in place by us were not designed, implemented and operating in all material respects to achieve the internal control objectives for the period as stated in their report as set out in “Appendix IV — Summary of the Review of Anti-Money Laundering Procedures, Systems and Controls”.

### **Experienced and well-qualified management team with a strong track record in operating pachinko halls**

Our Executive Director and senior management team (including our Executive Officers) have extensive experience in operating pachinko halls in Japan. Mr. Taniguchi, our Chairman, Chief Executive Officer and Executive Director, is a son of our Founder, Mr. Tetsuyoshi TANIGUCHI (谷口哲義)<sup>#</sup> (also known as Mr. JEONG Bokyoung (鄭福鎔)) and has been with our Group for over 27 years, having previously headed a number of departments across our operations, such as human resources, hall development and sales. Mr. Taniguchi is also a director of the Pachinko-Trusty Board\* (一般社団法人パチンコ・トラスティ・ボード) and also the vice president, and the head of the Tohoku branch, of Nihon Yugi-kanren Jigyo Kyokai (Japan Amusement Business Association)\* (一般社団法人 日本遊技関連事業協会). Mr. Taniguchi has acquired extensive knowledge in a wide array of aspects in pachinko and pachislot hall operations.

Our business execution and day-to-day management are undertaken by our four experienced Executive Officers (which includes Mr. Taniguchi), who collectively possess expertise across the sales, corporate affairs, legal matters, financial control and general management functions in pachinko and pachislot hall operations. Our Executive Officers have an average of over 15 years of experience in pachinko and pachislot hall operations and have considerable experience and knowledge in their respective areas of responsibilities.

We have also appointed four Independent Non-executive Directors with extensive knowledge in finance and accounting, compliance and corporate governance. They will be invaluable to our future development as a listed company on the Stock Exchange.

See “Directors and Senior Management” for more details.

### **STRATEGIES**

We are one of the leaders in the pachinko industry and we aim to continue to strengthen our market position and further grow our business by pursuing the following strategies:

#### **Continue to leverage our strengths and expand our suburban halls network in Northeast Honshu (本州島東北) and to extend our leading market position**

Our suburban halls have always been our primary business focus and we currently expect them to continue to be so, primarily because we have a proven track record, as shown by our leading market position, in successfully operating and expanding our suburban hall operations in

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## BUSINESS

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Northeast Honshu (本州島東北) (especially Fukushima Prefecture (福島県) and its neighbouring prefectures) in a cost-efficient and strategic manner in line with our centralised management strategy. For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our suburban halls generated revenue of ¥27,113 million, ¥29,342 million, ¥30,452 million and ¥13,968 million from pachinko and pachislot business, representing 91.5%, 91.9%, 92.3% and 91.9% of our revenue from pachinko and pachislot business, respectively. Also, according to EBI: (1) land costs (whether for acquisitions or leases) in suburban areas are lower than urban areas (which has allowed us to open relatively large halls which are usually more attractive to customers); (2) there are significantly more entertainment options in urban areas, such as cinemas, horse-racing and nightlife entertainment, which increases competition for urban pachinko halls; (3) the customer base in suburban areas is generally more stable as customers are typically self-employed (such as farmers and fishermen), factory workers and retirees, whose free time is more evenly dispersed throughout the day, while customers in urban areas are typically full-time employees, who have more choices in hall selection as halls in urban areas and usually in close proximity to each other; and (4) companies in Japan are increasingly looking to build industrial parks in less populated areas of Japan (such as suburban areas), mainly because there is sufficient land to construct larger buildings with ample parking space, which is ultimately expected to increase the working population (one of our target demographics for suburban halls) in these suburban areas. Therefore, we intend to exploit our competitive strengths to continue to improve the performance of, and to expand, our suburban hall network in Northeast Honshu (本州島東北) and ultimately to add to our leading market position.

In particular, we plan to open a total of seven suburban halls over the next three years. We believe that many opportunities for pachinko hall expansion continue to exist in Northeast Honshu (本州島東北), particularly in suburban areas. We believe this is so, despite the shrinking pachinko industry, because the resulting consolidation has pushed out smaller pachinko hall operators (thus, freeing up market share for us) due to competition from larger hall operators, such as ourselves, that have greater financial and other resources and are able to benefit from economies of scale, including operational cost efficiencies. This has especially been the case in Fukushima Prefecture (福島県) and its neighbouring prefectures, where our leadership position has also served as an increasingly effective barrier of entry. Our operational efficiencies and cost savings also allow us to successfully operate relatively large halls, which are generally more attractive to players and has helped capture the market share of smaller hall operators. See “— New Hall Development” in this section below for details.

These seven new suburban halls will share the same key features as our existing profit-making suburban halls, but will be even larger, typically featuring around 560 to 800 machines per hall. In particular, we expect to open a new hall in Fukushima Prefecture (福島県) by December 2015 with over 1,000 machines, which will become our largest hall and is expected to become one of the largest halls in Fukushima Prefecture (福島県). These new halls will be larger than the industry average and our Directors believe such large-scale halls will significantly help attract new player traffic, especially from our competitors' halls, due to such halls being spacious with an opulent atmosphere and increased choice of machines. Such halls will also allow us to reduce our overhead per machine. We will be able to utilise our economies of scale to operate such large halls in a cost-efficient manner.

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Breakeven period and investment payback period are useful indicators of the performance of a new hall. Breakeven period refers to the time required for the hall's monthly revenue (from pachinko and pachislot hall operations) to equal its monthly direct expense, while investment payback period refers to the time required for the hall's accumulated net profit to cover its opening costs and operating expenses incurred so far. Based on our past experience with opening new halls, the breakeven period is typically around four to ten months and investment payback period is around seven years. We expect the breakeven period and investment payback period for these seven new suburban halls to be similar. We plan to open these seven new suburban halls ourselves (as opposed to acquiring our competitors' halls), and we will lease the properties for these seven new suburban halls on terms similar to our existing leases, which last for around 10 to 20 years (being longer than the expected investment payback period of seven years).

### **Improve the performance of our urban halls**

As at the Latest Practicable Date, we operated nine urban halls. During the three years ended 31 March 2014, our revenue from pachinko and pachislot business per urban hall decreased at a CAGR of 5.2% while our revenue from pachinko and pachislot business per suburban hall increased at a CAGR of 3.5%. Also, during the year ended 31 March 2014, our revenue per machine for our suburban halls was 20.9% higher than that of our urban halls. The decrease of our revenue per urban hall was mainly due to the following reasons: (1) property space is limited and land acquisition and rental costs are much higher in urban areas, which have restricted us to opening relatively small urban halls (with only around 200 to 300 machines per hall, compared with our much larger suburban halls that currently have around 400 to 700 machines per hall) and are generally less welcoming to pachinko and pachislot players due to less choices of machines; (2) the entertainment industry in urban areas (especially Tokyo (東京都)) is much more competitive, with a higher concentration of not only our competitors' halls but also alternative forms of entertainment (such as cinemas, horse-racing and nightlife entertainment); and (3) the customer base is relatively unstable as customers are typically full-time employees, thus, their free time to play at our halls is generally limited to after office hours and may retreat to suburban areas during weekends and holidays.

Going forward, we intend to improve the performance of our urban hall network. First, we intend to close down two of our urban halls in Tokyo (東京都) by the end of 2015. These two halls have been loss-making, primarily due to low player traffic caused by their below-average hall size and the intense competition in the urban areas of Tokyo (東京都). To close these two halls, we expect to incur costs of ¥327 million (subject to negotiation), consisting of: (1) rent for the remaining term of the lease (being ¥289 million); and (2) restoration fees (being ¥38 million). Nevertheless, we expect the Group's financial performance to improve in the long run as these two halls show insufficient potential in generating positive financial results in the future. We will consider using the existing staff and machines for these halls (that are expected to be closed down) for either our existing halls or our new suburban halls to be opened in the next three years.

Second, for our remaining urban halls (which all have a positive cash flow), we believe there is strategic and financial value in continuing their operations, and we intend to improve their financial results through more effective marketing strategies, fine-tuning of the machine mixes

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and also minor hall renovations, in order to ultimately revitalise player interest and provide better playing experiences. We also intend to reduce these halls' operational costs by purchasing second-hand machines, which are significantly cheaper than new machines. Ultimately, our Directors expect to see improved results after the abovementioned steps are taken to enhance the performance of our urban halls.

### **Launch an online general prize redemption system**

We are currently considering launching an online system (through a potential joint venture), where customers can exchange balls or tokens obtained at our halls for general prizes. We believe that this online general prize redemption system will significantly help us in attracting more pachinko customers and also the pachinko industry as a whole. Primarily, we expect it to greatly improve the redemption rate of general prizes, which has historically been very low (as compared to G-prizes). For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, the amount of redeemed general prizes was 1.0%, 0.9%, 0.9% and 1.3% of the total amount of redeemed prizes, respectively. We believe this low redemption rate of general prizes is due to the fact that G-prizes are much more flexible, as they can be sold by customers to independent G-prize buyers for cash. General prizes, on the other hand, are very limited in variety as their offerings are restricted by the actual physical space of our halls. For example, our halls currently only offer around 280 to 1,400 types (depending on the size of the hall) of daily convenience store goods.

Through an online system, our range of general prizes will no longer be limited to the physical space of our halls. This means we will be able to offer a significantly wider range in terms of both quantity and variety of goods (and significantly, not just the traditionally offered daily convenience store goods). The online system may also offer a delivery service for exchanged general prizes, providing high level of convenience for our customers. The selling price of such prizes will be within the maximum value stipulated under the Enforcement Ordinance (being ¥9,600 before consumption tax). Our Japan Legal Adviser has confirmed that this online general prize redemption system (as conceptualised so far) and our involvement with it are in compliance with applicable Japan laws and regulations.

### **Achieve greater cost savings through our centralised management strategy**

With our centralised operational and management structure, we will continue to strive for greater operational efficiencies and cost savings by standardising our pachinko halls in terms of branding, construction and procurement. Together with our strategy to expand within Northeast Honshu (本州島東北), we expect to benefit further from economies of scale in respect of cost savings through bulk purchases and efficient allocation of human resources. We believe that this strategy would help enhance our strong market position and eventually lead us to an even more dominant position in Northeast Honshu (本州島東北).

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### Continue to invest in our information technology system

We plan on consolidating certain software systems into an advanced integrated software system, with improved data-analysis functions and increased efficiency in information sharing and communication among our various departments. For example, an advanced integrated system will more efficiently circulate operational data collected in each hall to our purchasing department for making procurement decisions, and also simultaneously to our sales strategy department for analysis and budgeting. Further, we intend to upgrade our current Hall Management System in order to enhance our internal control by adding a new function that detects instances when a machine suddenly pays out an exceptionally high amount for our immediate attention. We will also consider adding a face-recognition function to our hall surveillance systems to detect previously caught or suspected cheaters.

### PACHINKO AND PACHISLOT HALL OPERATIONS

Our primary business has always been our pachinko and pachislot hall operations<sup>2</sup>. As at the Latest Practicable Date, we operated 55 pachinko halls in ten prefectures of Japan, all within Northeast Honshu (本州島東北), especially Fukushima Prefecture (福島県), Tokyo (東京都) and their neighbouring and conjoining prefectures. We have achieved growth in the number of our pachinko halls during the Track Record Period and up to the Latest Practicable Date. The table below shows the number of our operating halls as at the indicated dates:

	As at 31 March			As at	As at the
	2012	2013	2014	30 September	Latest
				2014	Practicable
					Date
Suburban .....	42	43	44	44	46
Urban .....	8	9	9	9	9
<b>Total</b> .....	<b>50</b>	<b>52</b>	<b>53</b>	<b>53</b>	<b>55</b>

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<sup>2</sup> Our revenue from our pachinko and pachislot business constituted almost all of our total revenue, namely 97.6%, 97.5%, 97.5% and 97.6% of our total revenue during the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014. Other than our core business of pachinko and pachislot hall operations (including vending machine income), we also have two other businesses, namely our hotel operations and also our "LIZARRAN" restaurant. See "— Other Businesses" in this section below for details of these other businesses.

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Our revenue from our pachinko and pachislot hall operations consists of: (1) revenue from our pachinko and pachislot business, which in turn represents gross pay-ins less gross payouts; and (2) vending machine income. The table below shows our revenue from our pachinko and pachislot hall operations during the Track Record Period:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
(in millions, except for percentages)										
	¥	%	¥	%	¥	%	¥	%	¥	%
(unaudited)										
Revenue from pachinko and pachislot business . . . . .	29,628	97.6	31,919	97.7	32,994	97.9	15,992	97.8	15,191	98.1
Vending machine income . . . . .	724	2.4	748	2.3	704	2.1	362	2.2	301	1.9
<b>Revenue from pachinko and pachislot hall operations . . . . .</b>	<b>30,352</b>	<b>100.0</b>	<b>32,667</b>	<b>100.0</b>	<b>33,698</b>	<b>100.0</b>	<b>16,354</b>	<b>100.0</b>	<b>15,492</b>	<b>100.0</b>

The table below shows our revenue from pachinko and pachislot business during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013 (unaudited)	2014
(¥, in millions)					
Gross pay-ins <sup>(1)</sup> . . . . .	224,968	242,217	236,449	120,674	90,989
Less: Gross payouts <sup>(2)</sup> . . . . .	(195,340)	(210,298)	(203,455)	(104,682)	(75,798)
<b>Revenue from pachinko and pachislot business<sup>(3)</sup> . . . . .</b>	<b>29,628</b>	<b>31,919</b>	<b>32,994</b>	<b>15,992</b>	<b>15,191</b>

(1) Represents the amount received from customers for rented pachinko balls and pachislot tokens.

(2) Represents the aggregate cost of G-prizes and general prizes exchanged by customers.

(3) Represents gross pay-ins less gross payouts.

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### **Geographical Focus in Northeast Honshu (本州島東北)**

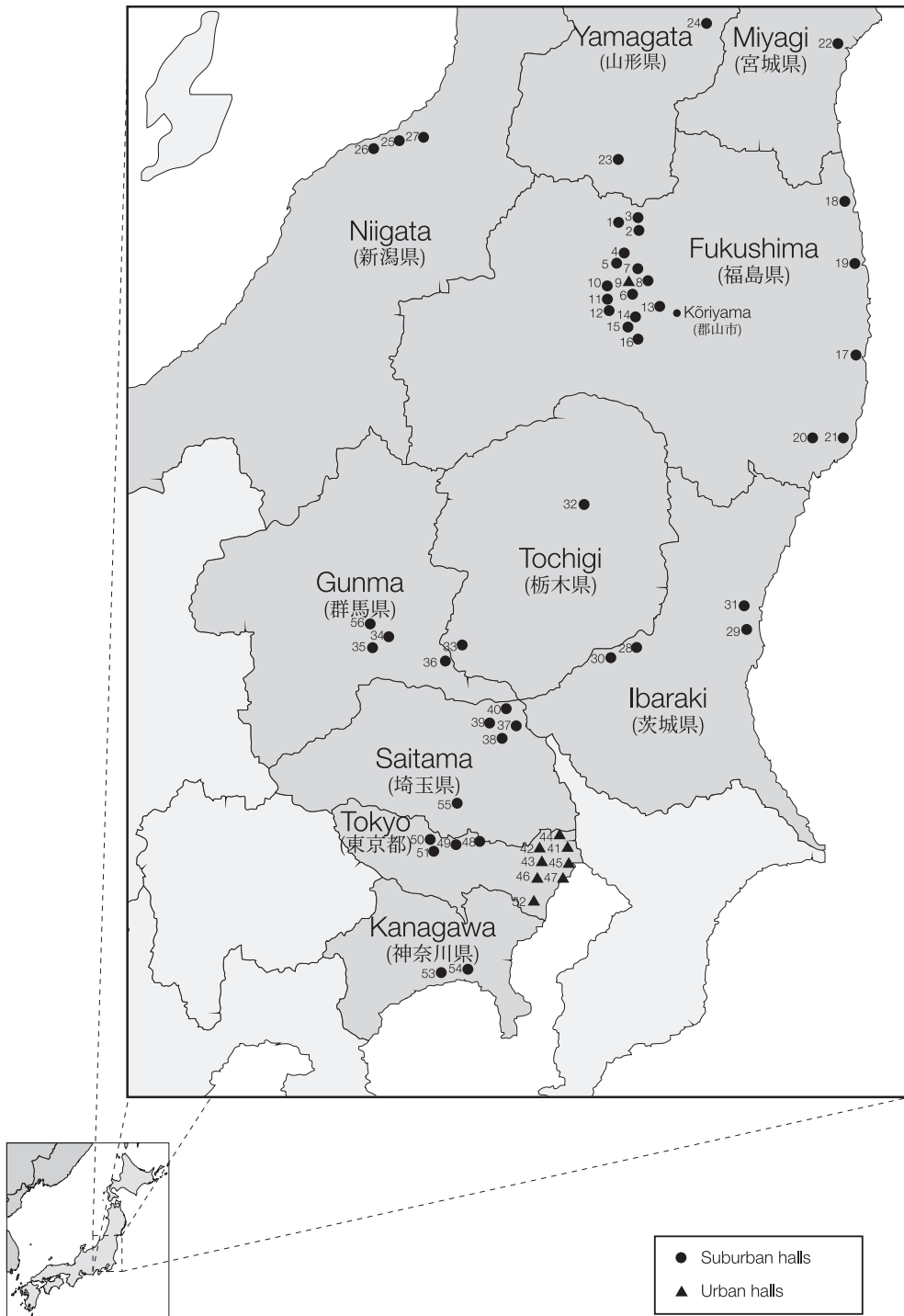
All of our halls are located in Northeast Honshu (本州島東北). Our halls are spread across ten prefectures, namely:

1. in the Tōhoku Region (東北地方): Fukushima Prefecture (福島県), Miyagi Prefecture (宮城県) and Yamagata Prefecture (山形県);
2. in the Kantō Region (関東地方): Tokyo (東京都), Ibaraki Prefecture (茨城県), Gunma Prefecture (群馬県), Kanagawa Prefecture (神奈川県), Tochigi Prefecture (栃木県) and Saitama Prefecture (埼玉県); and
3. in the Chūbu Region (中部地方): Niigata Prefecture (新潟県).



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The below map shows the number of our pachinko halls as at the Latest Practicable Date:



*Note:* Hall number 17 in Fukushima Prefecture (福島県) has been permanently closed since the Great East Japan Earthquake as it is located within the exclusion zones implemented by the Japanese government in March 2011. See “— Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake” in this section below for details.

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The table below shows a breakdown of our halls by type in each of these ten prefectures as at the Latest Practicable Date:

Prefecture	Number of operating halls		
	Suburban	Urban	Total
<b>Tōhoku Region (東北地方)</b>			
Fukushima Prefecture (福島県) . . . . .	19	1	20
Miyagi Prefecture (宮城県) . . . . .	1	—	1
Yamagata Prefecture (山形県) . . . . .	2	—	2
<b>Kantō Region (関東地方)</b>			
Tokyo (東京都) . . . . .	4	8	12
Gunma Prefecture (群馬県) . . . . .	4	—	4
Ibaraki Prefecture (茨城県) . . . . .	4	—	4
Kanagawa Prefecture (神奈川県) . . . . .	2	—	2
Saitama Prefecture (埼玉県) . . . . .	5	—	5
Tochigi Prefecture (栃木県) . . . . .	2	—	2
<b>Chūbu Region (中部地方)</b>			
Niigata Prefecture (新潟県) . . . . .	3	—	3
<b>Total</b> . . . . .	<b>46</b>	<b>9</b>	<b>55</b>

These ten prefectures had a total population of 47.4 million as at 31 December 2013 and a real GDP of ¥202.9 trillion in 2013, representing 37.7% and 38.6% of the total population as at 31 December 2013 and real GDP of Japan in 2013, respectively. The table below shows certain economic data with respect to the ten prefectures for the indicated dates and periods:

	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	CAGR	
											2009 - 2013	2014E - 2018E
<b>Total population of the ten prefectures as at 31 December (thousands)</b> . . . . .	46,906	47,395	47,367	47,358	47,380	47,384	47,389	47,376	47,360	47,352	0.3%	0.0%
Percentage of total population of the ten prefecture out of that of Japan (%) . . . . .	37.3	37.5	37.5	37.6	37.7	37.8	37.8	37.9	38.0	38.0	N/A	N/A
<b>Total real GDP of the ten prefectures (¥ billion)</b> . . . . .	194,571	195,846	196,528	199,395	202,918	203,836	206,042	208,810	212,231	216,697	1.1%	1.5%
Growth rate of the total real GDP of the ten prefectures (%) . . . . .		0.7	0.3	1.5	1.8	0.5	1.1	1.3	1.6	2.1	N/A	N/A

Source: Japan Statistics Bureau and EBI

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As shown above, the total population of these ten prefectures has increased slightly. Further the total population of these ten prefectures has been taking up an increasingly larger proportion of the total population of Japan.

### **Fukushima Prefecture (福島県) and the Great East Japan Earthquake**

Fukushima Prefecture (福島県) is our most important strategic location, in which our headquarters, hotel and 20 of our halls (as at the Latest Practicable Date) are located. In particular, it is the prefecture with the most number of our halls and machines. Our halls in Fukushima Prefecture (福島県) accounted for 40.1%, 40.7%, 40.5% and 42.7% of our total revenue for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively.

In March 2011, the Great East Japan Earthquake struck the Tōhoku Region (東北地方), northeast of Japan. This earthquake triggered tsunami waves that struck the northeastern coast of Japan, and caused (among others) the nuclear power plant incident in Fukushima Prefecture (福島県), causing the lingering public concern over radiation levels.

As a result of the Great East Japan Earthquake, we recorded earthquake losses (namely, property damage) of ¥653 million for the year ended 31 March 2011. It caused us to temporarily suspend the operations of a majority of our halls, namely 32 halls, of which 11 halls were reopened within two weeks, 17 halls were reopened within four weeks, one hall was reopened within six weeks, two halls were reopened within eight weeks and one hall was reopened within 13 weeks. We also had to permanently close one hall (that was located within the exclusion zone in Fukushima Prefecture (福島県) implemented by the Japanese government). For this one permanently closed hall, we entered into alternative dispute resolution (namely, mediation of settlement before the Nuclear Damage Compensation Dispute Resolution Center\* (原子力損害賠償紛争解決センター), an administrative alternative dispute resolution institution established by the Japanese government specifically to deal with nuclear damage compensation claims arising from this nuclear power plant incident) with the operator of the affected nuclear plants, Tokyo Electric Power Company, Incorporated\* (東京電力株式会社), which compensated us ¥590 million (recorded as other income for the six months ended 30 September 2014), mainly for our loss of profits incurred during the one-year period after the Great East Japan Earthquake and also related property damages (including loss of all movables such as machines and islands). Our Directors are considering the most appropriate method to obtain compensation for loss of profits for subsequent years. Aside from this permanently closed hall, none of our halls is within the exclusion zones implemented by the Japanese government.

Further, our Directors have confirmed that we have not experienced any casualties or injuries as a result of the Great East Japan Earthquake.

On 22 December 2014, the Tokyo Electric Power Company, Incorporated\* (東京電力株式会社) announced the on-schedule completion of the first major advancement towards the decommissioning of the relevant nuclear power plant. All fuel assemblies had been removed from one of the four damaged reactor buildings, resulting in a significantly safer environment for workers and surrounding communities, according to the operator's president and chief executive

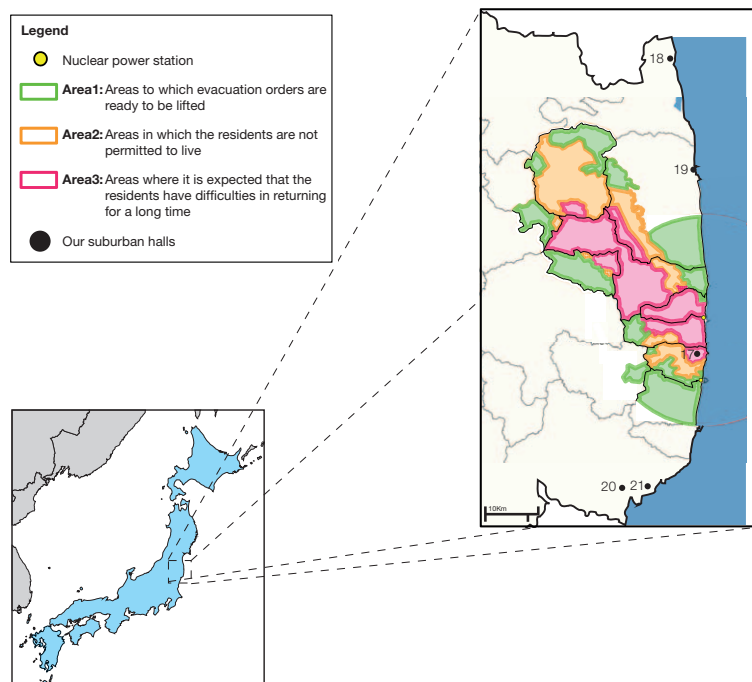
officer. Fuel removal operations have shifted towards the remaining three damaged reactor buildings. Further, a reputable scientific journal published a report in early 2014 on the radiation in certain areas neighbouring the exclusion zones. The average radiation dose rate in 2012 and the projected average radiation dose rate in 2022 are both similar to the average background radiation exposure in Japan. Further, a detectable increase in cancer risk from 2012 onwards is unlikely.

**Exclusion zones stipulated by the Ministry of Economy, Trade and Industry of Japan (経済産業省)**

In response to the Great East Japan Earthquake, the Ministry of Economy, Trade and Industry of Japan (経済産業省) stipulated exclusion zones on 22 April 2011 with three degrees of severity, namely areas where (from most severe to least severe): (1) it is expected that residents will have difficulties in returning for a long time; (2) the residents are not permitted to live; and (3) evacuation orders are ready to be lifted. Since the implementation of such exclusion zones, the Ministry of Economy, Trade and Industry of Japan\* (経済産業省) has gradually reduced the size of such zones twice, namely on 1 April 2014 and 1 October 2014.

We only own one hall that is located within these exclusion zones, which, as mentioned above, has been permanently closed since the Great East Japan Earthquake. Our next closest hall (to these exclusion zones) is already located at least five kilometres outside of the least severe exclusion zone (areas where evacuation orders are ready to be lifted).

The below map shows the coverage of these three exclusion zones as at the Latest Practicable Date, including the location of our halls in Fukushima Prefecture (福島県):



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### ***Effect of the Great East Japan Earthquake on the working population and financial results of our halls in Fukushima Prefecture (福島県)***

According to statistics published by the Fukushima Prefectural Government (福島県庁), the working population (including part-time employees) in Fukushima Prefecture (福島県) as at 31 December 2011 recorded a decrease of 6.6% to 598,006 as compared to 31 December 2010. This was mainly due to a decrease in women with part-time jobs as many chose to leave the prefecture in order to avoid the aftermath of the earthquake. However, by 31 December 2012, the working population had already sharply rebounded, increasing by almost 10% to 652,725 as compared to the same time last year. In fact, by 31 December 2012, the working population had already exceeded the level preceding the Great East Japan Earthquake by 2.0%, and by 31 December 2013, the working population had increased to 655,479. The increase in working population was mainly due to a surge in male workers (primarily in the manufacturing, construction and logistics industries) and also female workers (primarily in welfare and catering service) as part of the post-earthquake recovery efforts.

	<b>Before the Great East Japan Earthquake</b>	<b>After the Great East Japan Earthquake</b>		
	<b>31 December 2010</b>	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Working population of Fukushima Prefecture (trailing 12-month average) . . . . .	640,221	598,006	652,725	655,479
Percentage change of working population of Fukushima Prefecture since 31 December 2010 (%) . . . . .	N/A	-6.6	2.0	2.4

*Source: Fukushima Prefectural Government (福島県庁)*

Ultimately, the increases in working population have improved the business performance of our halls located in Fukushima Prefecture (福島県) by increasing our player traffic. For the three years ended 31 March 2012, 2013 and 2014, the revenue from pachinko and pachislot business of these halls amounted to ¥11.9 billion, ¥13.0 billion and ¥13.4 billion, respectively, and represented a CAGR of 6.0%. In fact, our halls located in Fukushima Prefecture (福島県) have become increasingly important to our financial results since the earthquake, having represented 40.1%, 40.7%, 40.5% and 42.7% of the total revenue from pachinko and pachislot business of all our halls for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. Further, operating profit attributable to our halls located in Fukushima Prefecture (福島県) also increased over the Track Record Period, having represented 51.1%, 54.6%, 55.9% and 59.7% of our total operating profit for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. Ultimately, as a result of the Great East Japan Earthquake, our revenue was not negatively impacted (and actually improved compared to the financial year preceding the earthquake), while our profit was

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negatively impacted only for the year ended 31 March 2011 (being the year of the earthquake), after which it had already rebounded to levels exceeding that of the financial year preceding the earthquake.

### **Gaming Experience**

Our pachinko halls provide a venue for customers to play two types of recreational arcade games, namely pachinko and pachislot. These games are played as follows:

#### **1. Obtaining pachinko balls or pachislot tokens**

Pachinko balls are used to play pachinko games, while pachislot tokens are used to play pachislot games.

Our pachinko and pachislot games may be played for different ball or token rental rates. We have pachinko machines with playing costs of ¥0.5, ¥1, ¥1.25, ¥2 and ¥4 and pachislot machines with playing costs of ¥2, ¥5, ¥10 and ¥20 in our halls<sup>3</sup>. For example, for ¥1,000, a customer may obtain 250 ¥4 pachinko balls to play or 50 ¥20 pachislot tokens to play.

To obtain pachinko balls or pachislot tokens, a player initially inserts cash into the game machine. The player can then purchase pachinko balls in ¥500 blocks or pachislot tokens in ¥1,000 blocks out of such cash balance and put the balls or tokens into play.

When the player finishes playing that particular machine, any unutilised cash, balls or tokens can be stored either in: (1) an IC card, which will be ejected from the machine; or (2) a membership card inserted by the player at the beginning of play. See “— Marketing and Market Research — Membership system” in this section below for details on our membership cards.

These IC and membership cards can then be: (1) re-inserted into machines in the same hall to utilise any stored cash, balls or tokens; (2) inserted into the cash changer to redeem any remaining cash balance before such card's expiry; or (3) handed over to our staff in the same hall to exchange the remaining balance of balls or tokens into prizes.

For IC cards, any stored balls or tokens can only be used on the same day the card is issued, while any cash balance will be forfeited 21 days after the card is issued (in line with market practice). Unutilised cash stored in IC cards are accounted for as other payables and is recognised as gross pay-ins when the player uses it to purchase balls or tokens. Any forfeited

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<sup>3</sup> Some of our halls may require the customer to absorb the consumption tax. For these halls, playing costs for pachinko machines are ¥0.54, ¥1.08, ¥2.16 and ¥4.32, while playing costs for pachislot machines are ¥5.4, ¥10.8 and ¥21.6. Our Japan Legal Adviser has confirmed that such arrangements are in compliance with the Amusement Business Law and the Enforcement Ordinance.

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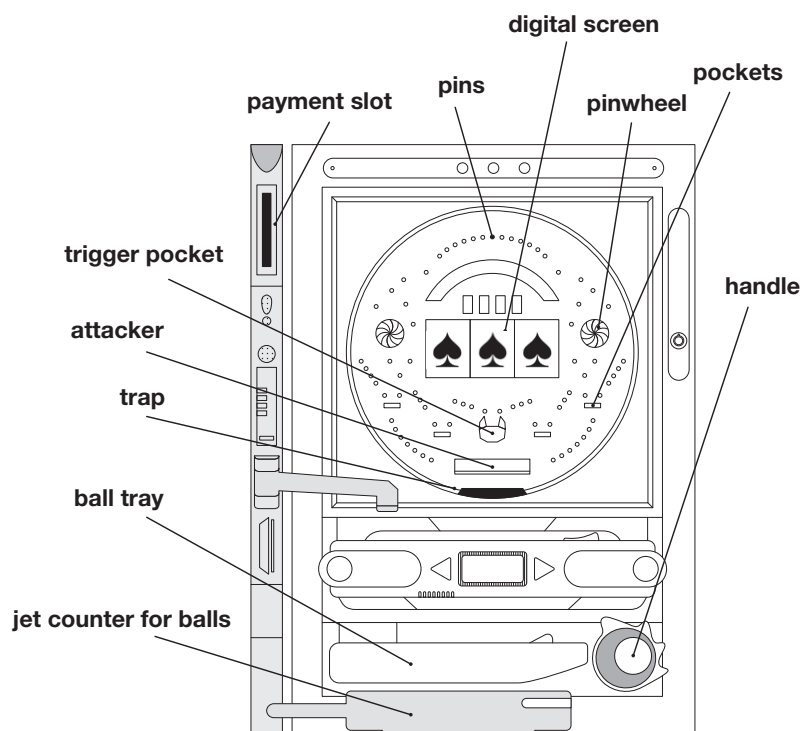
cash balance is recognised as other income, which accounted for less than 0.02% of our gross pay-ins during the Track Record Period. See “Financial Information – Results of Operations of our Group – Description of Components of Results of Operations – Gross pay-ins” for details on unused amounts on IC cards.

The number of our pachinko halls has grown during the Track Record Period, which also meant a corresponding increase in the number of our pachinko and pachislot machines. The table below shows the number of our pachinko and pachislot machines as at the indicated dates:

	As at 31 March						As at 30 September	
	2012		2013		2014		2014	
	(number of machines, except for percentages)							
		%		%		%		%
Pachinko . . . . .	16,551	69.3	17,160	68.3	17,575	67.9	17,562	67.3
Pachislot . . . . .	<u>7,321</u>	<u>30.7</u>	<u>7,981</u>	<u>31.7</u>	<u>8,313</u>	<u>32.1</u>	<u>8,542</u>	<u>32.7</u>
<b>Total . . . . .</b>	<b><u>23,872</u></b>	<b><u>100.0</u></b>	<b><u>25,141</u></b>	<b><u>100.0</u></b>	<b><u>25,888</u></b>	<b><u>100.0</u></b>	<b><u>26,104</u></b>	<b><u>100.0</u></b>

### 2. *Playing pachinko or pachislot*

#### *Pachinko*



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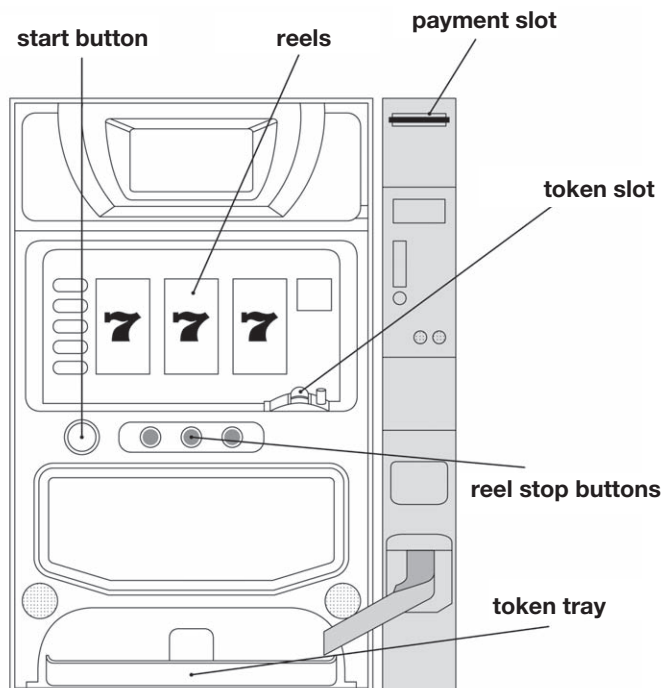
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A pachinko machine resembles a vertical pinball machine (but without pinball flippers and with a large number of playing balls). The objective is to collect as many pachinko balls as possible, in order to exchange them for prizes in our halls. Upon inserting cash, an IC card or the membership card into the payment slot adjacent to the machine, a number of small metal pachinko balls is dispensed into the ball tray located near the bottom of the machine. The player fires the balls into the playing field in rapid succession, while controlling the velocity of the pachinko balls by turning a handle located next to the tray. The key is to find the proper shooting strength, as turning the handle too far sends the pachinko balls straight into the exit chute and the balls will be forfeited, while not turning the handle far enough will not cause the balls to launch into the playing field.

Once shot into play, the pachinko balls cascade down through the dense array of pins in the playing field. Pachinko balls will either fall into: (1) the single trap at the bottom of the playing field and such pachinko balls will be lost; or (2) the pockets located along the bottom of the playing field, which in turn trigger the release of more pachinko balls into the ball tray, that can be placed back into play or exchanged for prizes.

There is typically one pocket near the bottom of the playing field, a “trigger” pocket, which causes images arranged in multiple columns on the digital screen in the centre of the playing field to spin, similar to the reels in a slot machine. Each spin pays out a small number of balls. If the spins produce a winning combination of images on-screen, the “jackpot” mode commences that opens a larger pocket in the playing field (the “attacker”) for a limited time. Each ball that lands in the “attacker” during this “jackpot” mode pays out a large predetermined number of pachinko balls.

### *Pachislot*





A pachislot machine is similar to a traditional slot machine, with three reels of different images in playing field. The objective of pachislot is to collect more tokens by stopping the spinning reels such that the images on each reel match up to form a winning combination. To play, as with pachinko machines, a player inserts cash, an IC card or a membership card into the payment slot adjacent to the machine, and a number of tokens to be used in the game will be dispensed into the tray near the bottom of the machine. The player inserts tokens into the machine presses the start button, which causes the three reels to begin to spin. While the reels are spinning, the player presses the stop button under each reel to stop the corresponding reel. If, after the three reels have been stopped, two or more of the pictures match up, the player wins more tokens that are dispensed into the token tray. If none of the pictures on the three reels matches up, the tokens played are lost.

### 3. *Redeeming Prizes*

Both games end when the player either runs out of pachinko balls or pachislot tokens, or simply stops playing. Each machine may have its own theme or enhancing features such as a display screen that shows short video clips during play for added entertainment, in order to provide the player with a more entertaining gaming experience.

Once a customer has finished playing, the pachinko balls or pachislot tokens collected by them must be returned to the pachinko hall and cannot be used in other halls. The pachinko hall will count such balls or tokens and issue a receipt to the player showing the number collected. The player may then take this receipt to claim prizes at the prize exchange counter within the pachinko hall (and operated by the hall operator), similar to exchanging tickets won at a carnival for prizes. The number of balls or tokens required to exchange for prizes vary by location and the market value of such prizes. Generally, prizes must be claimed on the same day the receipt is issued as the receipt is only valid on its issue date. See “— Marketing and Market Research — Membership system” in this section below for information on carrying over unused balls for subsequent visits.

Prizes provided by our pachinko halls consist of:

- a. **General prizes.** These are typically the types of daily goods sold in convenience stores, including cigarettes, food and snacks, household goods and drinks. Our halls offer a selection of around 280 to 1,400 types of general prizes, with the number and variety varying based on the size of the hall. Our suburban halls are larger (and offer more types of general prizes) than our urban halls. The dominant category of our general prizes on offer is food and snacks, which includes an array (namely, 22 items) of our private brand products manufactured by our private label manufacturers.

The value of pachinko balls or pachislot tokens required to redeem general prizes is determined with reference to suggested retail prices from the prize supplier. Regulations set the upper limit of the value of all prizes at ¥9,600 (before consumption tax). For more information, see “Applicable Laws and Regulations D. Other Regulations on Pachinko Businesses — 5. Playing Costs, Prize Offerings and Prize Value”. We realise a margin on general prizes where the monetary value of the number of balls or

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tokens required to collect a general prize exceeds that of our purchase price for such general prize. During the Track Record Period, our general prize (excluding our private brand products) mark-up ranged from 18% to 25%, while our private brand product mark-up was higher, ranging from 43% to 46%. Our Directors have confirmed that there was no material change in our general prize mark-ups (including our private brand products) during the Track Record Period and up to the Latest Practicable Date.

Our Japan Legal Adviser has confirmed that such mark-ups on our general prizes are legal and valid under applicable Japan laws and regulations.

- b. **G-prizes.** These are decorative cards with a small embedded piece of metal (such as gold) or coin-shaped pendants of metal (such as gold), and can be subsequently sold by players to independent G-price buyers for cash.

The value of pachinko balls or pachislot tokens required to redeem G-prizes varies depending on location as well as the playing cost of the machine played, generally corresponding to a mark-up over the price (paid by us to our G-prize wholesalers for the G-prizes). Therefore, similar to general prizes, we sometimes realise a margin on G-prizes due to the G-prize mark-up, where the monetary value of the number of balls or tokens required to exchange a G-prize exceeds that the cost we paid for such G-prize. During the three years ended 31 March 2014, our G-prize mark-up was nil, while during the six months ended 30 September 2014 (specifically, since 1 April 2014), our G-prize mark-up ranged from 4% to 20% (with an average of 10%). See “Financial Information — Results of Operations of Our Group — Description of Components of Results of Operations — Gross payouts” for details on the material changes in our G-prize mark-ups during the Track Record Period and up to the Latest Practicable Date, and also the expected impact on our operational and financial results.

G-prizes make up virtually all of the value of prizes exchanged by customers. The table below shows the value of G-prizes and general prizes exchanged by customers during the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
G-prizes . . . . .	193,351	99.0	208,288	99.1	201,708	99.1	103,706	99.1	74,508	98.3
General prizes. . . . .	1,950	1.0	1,989	0.9	1,852	0.9	961	0.9	994	1.3
Others <sup>(Note)</sup> . . . . .	39	0.0	21	0.0	(105)	0.0	15	0.0	296	0.4
<b>Total . . . . .</b>	<b>195,340</b>	<b>100.0</b>	<b>210,298</b>	<b>100.0</b>	<b>203,455</b>	<b>100.0</b>	<b>104,682</b>	<b>100.0</b>	<b>75,798</b>	<b>100.0</b>

*Note:*

Others mainly represent the movements of balances of unutilised balls and tokens during the year/period. See “Financial Information — Financial Metrics of our Business”.

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Our Japan Legal Adviser has confirmed that such exchange of G-prizes and such G-prize mark-ups are legal and valid under applicable Japan laws and regulations.

In accordance with the Amusement Business Law and its ancillary prefectural local regulations, we strictly do not exchange any pachinko balls or pachislot tokens for cash or securities in any of our halls. However, customers are free to further sell their G-prizes to an independent G-prize buyer (not located in our halls) for cash.

Further, as advised by our Japan Legal Adviser, Japan laws or regulations do not restrict customers from purchasing balls or tokens and then directly exchanging them for prizes without playing. However, such acts are prohibited under our internal AML policies and procedures. Our hall staff perform regular monitoring of customers during operation hours to identify (among others) customers exchanging prizes without playing. Further, at the end of each day, our hall managers compare the ratio of the number of balls played to the number of balls rented at the pachinko hall with historical figures. If abnormal values are detected, our hall manager will instruct hall staff to review surveillance camera footage of the day to identify any customers that exchanged prizes without playing. Hall staff will also pay special attention to customers on the next day to identify such suspicious activity. If a customer is identified to be exchanging prizes without playing and does not cease to do so after being asked, such act will immediately be reported to the police. We may also request such customer to immediately leave the premises and refuse the exchange of balls or tokens earned without playing. No such incident was discovered during the Track Record Period and up to the Latest Practicable Date. In any event, customers should have no (or less) incentive to exchange balls or tokens for prizes without playing, as they will suffer immediate monetary losses due to the various prize mark-ups imposed by us.

### **Three Party System**

Under the Amusement Business Law (and its ancillary prefectural local regulations), pachinko hall operators must not be involved in the exchange of prizes for cash or securities by either: (1) providing cash or securities as prizes; or (2) repurchasing from customers the prizes provided to them for cash or securities. In order to ensure compliance with (among others) these restrictions, we operate our pachinko and pachislot hall operations (regarding the sale and purchase of G-prizes exchanged by a customer by playing at our halls) in accordance with an established industry practice commonly referred to as the “Three Party System”. For a detailed description of the laws and regulations relating to pachinko and pachislot hall operations, see “Applicable Laws and Regulations”.

### **Parties**

The parties under the “Three Party System” consist of:

1. **Pachinko hall operators.** These operate pachinko halls that provide pachinko and pachislot games, and also purchase G-prizes from G-prize wholesalers. Customers can play these games and exchange their balls or tokens in these halls for prizes, such as G-prizes;

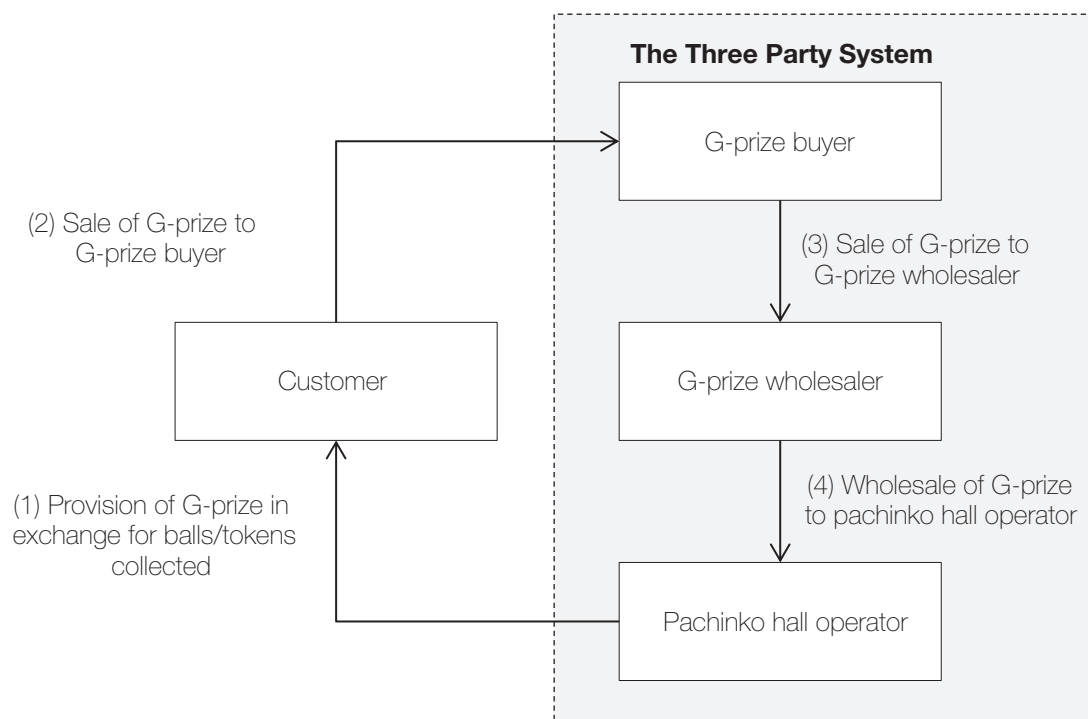
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2. **G-prize buyers.** These are typically companies or sole proprietorships. Customers can, but are not obliged to, sell their G-prizes (that they obtained from pachinko halls) to them for cash. G-prize buyers will then further sell these G-prizes to G-prize wholesalers; and
3. **G-prize wholesalers.** These are typically companies and they purchase G-prizes from G-prize buyers, and then further sell them to pachinko hall operators.

The diagram below shows the general flow of G-prizes within the Three Party System and with customers:



While the purchase price for transactions marked (2), (3) and (4) in the above diagram are generally similar, our G-prize wholesalers also typically receive a monthly fee from us and G-prize buyers also typically receive a monthly fee from the relevant G-prize wholesaler, for their respective services rendered for such relevant transactions. Consistent with industry practice, the monthly fee paid by us to G-prize wholesalers is greater than that paid by G-prize wholesalers to their G-prize buyers. See “— Pachinko and Pachislot Hall Operations — Three Party System — Agreements between us and G-prize wholesalers” and “— Pachinko and Pachislot Hall Operations — Three Party System — Agreements between G-prize wholesalers and G-prize buyers” in this section below. As for transaction (1), depending on the location of the hall and competition in that area, a mark-up on the G-prizes (set by the pachinko hall operator) may be added over the purchase price of the G-prize paid by the pachinko hall operator to the G-prize wholesaler, when the customer exchanges his balls or tokens for G-prizes. For instance, assuming a 10% G-prize mark up, a customer will need 1,100 ¥1 balls to exchange a G-prize with a cost of ¥1,000 from the operator.

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Further, G-prize wholesalers may purchase G-prizes from various G-prize buyers, and they may also sell G-prizes to various pachinko hall operators if the G-prize is of the same type in design and appearance. As such, all the G-prizes purchased by the wholesaler from multiple G-prize buyers are commingled, meaning that the G-prizes that are sold to the pachinko hall by the wholesaler are not necessarily the same G-prizes provided by the pachinko hall to its customers.

### ***Independence***

Under the Three Party System, pachinko hall operators (such as ourselves), must be independent of each of the: (1) G-prize wholesalers engaged by them; and (2) G-prize buyers engaged by their G-prize wholesalers. This ensures that, from the pachinko hall operators' perspective, G-prize wholesalers and G-prize buyers are unrelated third parties from the pachinko hall operator.

#### *Independence between pachinko hall operators and G-prize wholesalers*

A G-prize wholesaler is independent and an unrelated third party to the pachinko hall operator if:

1. neither party may have the ability to exercise control, whether directly or indirectly, over the other, through (i) any relationship or connection between the personnel of the pachinko hall operator and the G-prize wholesaler, (ii) any equity holding or any other capital relationship or connection between the pachinko hall operator and the G-prize wholesaler, or (iii) any contract or other agreement between the pachinko hall operator and the G-prize wholesaler; and
2. G-prizes to be purchased are of market value, meaning that G-prizes must have intrinsic value (which can be satisfied by the metal (such as gold) embedded in the G-prize).

Each of these factors is satisfied with respect to all of our pachinko halls.

Our Japan Legal Adviser, after conducting due diligence as described in “— Pachinko and Pachislot Hall Operations — Three Party System — Independence — Due diligence conducted by our Japan Legal Adviser and the Sole Sponsor” in this section below, has also determined that each of our pachinko halls is independent as evaluated under the factors listed above from each of our G-prize wholesalers.

#### *Independence between pachinko hall operators and G-prize buyers*

A G-prize buyer is independent and an unrelated third party to the pachinko hall operator if:

1. neither party may have the ability to exercise control, whether directly or indirectly, over the other, through (i) any relationship or connection between the personnel of the

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G-prize buyer and the pachinko hall operator, (ii) any equity holding or any other capital relationship or connection between the G-prize buyer and the pachinko hall operator, or (iii) any contract or other agreement between the G-prize buyer and the pachinko hall operator;

2. G-prizes to be purchased are of market value, meaning that G-prizes must have intrinsic value (which can be satisfied by the metal (such as gold) embedded in the G-prize); and
3. G-prizes are not directly returned from or sold by the G-prize buyer to the pachinko hall operator (but, for example, are instead sold by the G-prize buyer to a G-prize wholesaler who in turn commingles the G-prizes that it has purchased from multiple sources (including other G-prize buyers), thus, making it impossible to identify which hall the G-prizes came from).

Each of these factors is satisfied with respect to all of our pachinko halls.

Our Japan Legal Adviser, after conducting due diligence as described in “— Pachinko and Pachislot Hall Operations — Three Party System — Independence — Due diligence conducted by our Japan Legal Adviser and the Sole Sponsor” in this section below, has confirmed that each of our pachinko halls is independent as evaluated under the factors listed above from each of the G-prize wholesalers (engaged by us) G-prize buyers (engaged by such G-prize wholesalers).

### *Our internal control procedures to ensure our independence*

We have obtained written confirmations issued to us and the Sole Sponsor from all our current G-prize wholesalers regarding their independence (based on criteria even stricter than that set out above) from: (1) us; and (2) any G-prize buyers engaged by them who have G-prize buying shops near our halls. These confirmations also covered the following matters:

- a complete and accurate list of all G-prize buyers engaged by them who have G-prize buying shops near our halls;
- to the best of their knowledge, the content of the confirmations issued by such G-prize buyers (as described below) to us and the Sole Sponsor is true and accurate;
- written undertakings to conduct their own regular background checks against any G-prize buyers engaged by them in order to monitor any independence issues between such G-prize buyers and themselves, and if these G-prize wholesalers become aware of any such independence issues, they will inform us and resolve such issues immediately in order to ensure compliance with the Three Party System;

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- written undertakings to report to us in a timely manner any change in their shareholding structure and composition of their board of directors, or if they become aware of any change in the shareholding structure or composition of the board of directors of any G-prize buyers engaged by them or any other matters that may affect their independence or the independence of such G-prize buyers within the Three Party System; and
- to the best of their knowledge, they are not aware that any such G-prize buyers are anti-social forces, or are or will be involved in any actions or activities using, or jointly associate with, any anti-social force. Further, neither they nor any of their representatives, directors, statutory auditors, executive officers or shareholders are anti-social forces, or are or will be involved in any actions or activities using, or jointly associate with, any anti-social force.

We have obtained written confirmations issued to us and the Sole Sponsor from all such G-prize buyers regarding their independence (based on criteria even stricter than that set out above) from: (1) us; and (2) any G-prize wholesalers engaged by us. These confirmations also covered the following matters:

- neither they nor any of their representatives, directors, statutory auditors, executive officers or shareholders are anti-social forces, or are or will be involved in any actions or activities using, or jointly associate with, any anti-social force;
- to the best of their knowledge, they are not aware that any such G-prize wholesalers are anti-social forces, or are or will be involved in any actions or activities using, or jointly associate with, any anti-social force; and
- they have undertaken to the G-prize wholesaler that engages them that they shall report to such G-prize wholesaler in a timely manner any change in their shareholding structure or composition of board of directors or any other matters that may affect their independence within the Three Party System.

We have also obtained through our current G-prize wholesalers a list of the shareholders of the G-prize buyers engaged by them.

We will require our G-prize wholesalers to re-issue, and to request their G-prize buyers to re-issue, these confirmations to us every year.

In addition, we have also adopted the following internal control procedures to ensure the independence of our pachinko halls from each of our G-prize wholesalers and G-prize buyers engaged by them:

- we regularly obtain from each of our G-prize wholesalers a list of the shareholders (or ultimate owners) and directors of both themselves and the G-prize buyers engaged by them;

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- we will annually obtain commercial registers of all our G-prize wholesalers and the G-prize buyers engaged by them (provided that they are legal corporate entities) to review the composition of their board of directors;
- we will engage independent third parties to perform annual searches on the shareholding structure and list of directors (if available) for all of our G-prize wholesalers and G-prize buyers engaged by them;
- we require our Directors, senior management and Shareholders to confirm that they are independent of our G-prize wholesalers and such G-prize buyers (based on the criteria set out above), and to notify us immediately if they become aware of any potential independence issues;
- we will provide training on the Three Party System to our employees on a regular basis to ensure that they do not engage with G-prize wholesalers or G-prize buyers engaged by them, and to prevent them from unknowingly establishing a relationship with them. For example, all our Directors and senior management attended a training conducted by our Japan Legal Adviser in December 2014 on the legal, regulatory and practice requirements under the Penal Code, the Amusement Business Law and the Third Party Local Regulation, including the independence requirements within the Three Party System;
- we require that none of our management, Directors or staff are engaged in the G-prize buying business; and
- as our pachinko and pachislot hall operations are monitored by the Prefectural Public Safety Commission\* (都道府県公安委員会) in each relevant prefecture, in order to prevent any conflicts of interest that might otherwise arise and for improved corporate governance, none of our Directors or senior management has been, or is, a police officer in Japan and we require them to confirm so to us.

For our internal control procedures in relation to potential new G-prize wholesalers, see “— Pachinko and Pachislot Hall Operations — Three Party System — Risk management” in this section below.

### *Due diligence conducted by our Japan Legal Adviser and the Sole Sponsor*

Our Japan Legal Adviser and Sole Sponsor has conducted the following due diligence regarding our independence from each of our G-prize wholesalers and the G-prize buyers engaged by them:

- hosted a training session conducted by our Japan Legal Adviser in December 2014 for all our Directors and senior management on the legal, regulatory and practice requirements under the Penal Code, the Amusement Business Law and the Third Party Local Regulations, including the independence requirements within the Three Party System;



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- obtained confirmations issued to us and the Sole Sponsor from our Directors and senior management regarding (among others) their attendance and understanding of the relevant legal, regulatory and practice requirements (including on independence) explained at the above training session;
- obtained confirmations issued to the Sole Sponsor from our Company, Directors, Shareholders and senior management regarding (among others) the Group's and their independence from each of our G-prize wholesalers and the G-prize buyers (engaged by our G-prize wholesalers);
- interviewed all our Directors and senior management regarding (among others) their understanding of the relevant legal, regulatory and practice requirements (including on independence) explained at the above training session, their relationship(s) with our G-prize wholesalers and also the G-prize buyers (engaged by our G-prize wholesalers), and ultimately to confirm the Group's and their independence from each such party;
- interviewed our G-prize wholesalers (through their legal representative, a director or other responsible management personnel), regarding (among others) their relationship(s) with our Group and also the G-prize buyers (engaged by them), and ultimately to confirm their independence from each such party;
- interviewed the G-prize buyers (engaged by our G-prize wholesalers) (through their legal representative, a director or other responsible management personnel) regarding (among others) their relationship(s) with our Group and also our G-prize wholesalers, and ultimately to confirm their independence from each such party;
- reviewed all agreements between us and our G-prize wholesalers, namely purchase agreements for G-prizes, lease agreements and purchase agreements for miscellaneous goods and services. See “— Agreements between us and G-prize wholesalers” above for details on such agreements, including our Japan Legal Adviser's confirmation that such agreements do not affect our independence;
- reviewed the confirmations issued to us and the Sole Sponsor from all of our G-prize wholesalers and the G-prize buyers (engaged by our G-prize wholesalers) (except for those engaged in relation to our one hall that has been permanently closed due to the Great East Japan Earthquake) regarding (among others) their independence within the Three Party System. See “— Pachinko and Pachislot Hall Operations — Three Party System — Our internal control procedures to ensure our independence” for details of these confirmations;
- reviewed all commercial registers of our G-prize wholesalers and such G-prize buyers (engaged by our G-prize wholesalers) that are corporations in order to identify (among others) to identify any overlap of directors; and
- obtained a list of the Group's representatives, directors, statutory auditors, executive officers and shareholders through the Group's commercial registers and share registers.

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### ***Legality of our pachinko and pachislot hall operations and the Three Party System***

Our Japan Legal Adviser, having conducted due diligence described above and reviewed the relevant court cases, governmental statements and practices, has advised us that:

1. the National Police Agency has never taken any action against the legality of the pachinko industry, as a whole, under the Penal Code, the Amusement Business Law, the Third Party Local Regulations or otherwise;
2. as long as our pachinko and pachislot hall operations are conducted under the Three Party System, in accordance with prevailing standard industry practices in the pachinko industry, and the independence factors described above are satisfied, our pachinko and pachislot hall operations will not violate the Penal Code, the Amusement Business Law or the Third Party Local Regulations;
3. our pachinko and pachislot hall operations (as carried out in the context of the Three Party System) do not contravene the Penal Code, the Amusement Business Law, the Third Party Local Regulations or any of the operating licences of our halls; and
4. as at the Latest Practicable Date, we have not been found to be in any material breach of the Penal Code, the Amusement Business Law, the Third Party Local Regulations or any of the operating licences of our halls.

### ***Agreements between us and G-prize wholesalers***

Our business with the G-prize wholesalers is generally based on: (1) a purchase agreement for G-prizes; and (2) for around half of our suburban halls, a lease agreement for certain premises on the parcel of land where the relevant pachinko hall is located. For a few G-prize wholesalers, we may also enter into other purchase agreements for miscellaneous matters such as general prizes and vending machines.

***Purchase agreements for G-prizes.*** We enter into one master continuous purchase and supply agreement with each G-prize wholesaler, and also generally memorandum(s) as ancillary agreement(s) to such master agreement which will include separate commercial terms (such as the cost of G-prizes) for each hall. These agreements are generally valid for one year and automatically renewed on an annual basis. Under these agreements, we generally purchase G-prizes daily from the G-prize wholesaler for cash (typically settled upon delivery). In addition, we typically pay them a fixed monthly fee and/or a variable monthly fee calculated at around 1% of the total cost of the G-prizes purchased that month.

***Lease agreements.*** We enter into lease agreements for around half of our suburban halls. Under these, the G-prize wholesaler is restricted to use of the premises as office space and may not, without our prior approval, change the existing buildings or construct new buildings. We

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lease multiple premises under separate lease agreements with the same G-prize wholesaler. These leases generally last for a term of one year, with automatic annual renewals unless we or the G-prize wholesaler objects. We may also terminate the agreement at our option upon any breach by the G-prize wholesaler of any provisions of the agreement.

**Purchase agreements for miscellaneous goods/services.** For a few of our G-prize wholesalers, we also enter into purchase agreements for general prizes, such as foods, and also vending machines.

According to our Japan Legal Adviser, the various agreements that we have entered into with our G-prize wholesalers do not contravene the Amusement Business Law or the various relevant local regulations established by prefectural governments that prohibit pachinko hall operators from causing third parties to repurchase G-prizes from customers, as these arrangements do not affect our independence (i.e. do not allow us and the G-prize wholesalers either direct or indirect control over each other).

### **Agreements between G-prize wholesalers and G-prize buyers**

To the best of our Directors' knowledge and belief, G-prize wholesalers and G-prize buyers also typically agree between themselves two similar agreements: (1) a purchase agreement for G-prizes; and (2) a lease agreement for a portion of the same parcel of land leased by us (for around half of our suburban halls) to the G-prize wholesaler.

**Purchase agreements for G-prizes.** Each G-prize wholesaler and G-prize buyer also enters into an arrangement under which the G-prize wholesaler purchases G-prizes from the G-prize buyer for cash on a daily basis, at a price equivalent to that paid for G-prizes by the G-prize buyer to playing customers, and also by the hall operator (such as ourselves) to the G-prize wholesaler. In addition, the G-prize wholesalers also pay a fixed monthly fee to the G-prize buyers for their prize buying services, which allows the G-prize buyers to sustain their operations and to earn a profit.

**Lease agreements.** These allow the G-prize buyer to establish a presence on the property leased from us (for around half of our suburban halls) by the G-prize wholesaler, where customers may sell their G-prizes for cash. These arrangements between the G-prize wholesaler and G-prize buyer are common in the pachinko industry. To the best of our Directors' knowledge and belief, for some of our halls, G-prize buyers enter into lease agreements directly with the relevant landlord.

We have no arrangements, relationships or agreements with G-prize buyers, and no ability to exercise control, whether directly or indirectly, over them, nor they over us, through (i) any equity holding or capital relationship or connection, (ii) any relationship or connection between personnel, or (iii) any contract or other agreement. Nor do the arrangements between G-prize wholesalers and G-prize buyers create any relationship between us and the G-prize buyer.

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### **Risk management**

We have a detailed internal policy and procedures in place for the selection of our G-prize wholesalers. Our purchasing department handles and oversees this selection and background check process. Our G-prize wholesalers are selected based on the transparency of their operations, distribution network, logistics and inventory control capabilities and availability of supplies, by inspecting (among others) their commercial registers, financial statements, seal certificate and corporate brochure(s). There has been no change in our G-prize wholesalers during the Track Record Period and up to the Latest Practicable Date, and our Directors currently expect to continue using the same G-prize wholesalers in the foreseeable future.

Before engaging a G-prize wholesaler, we will conduct background checks, with a focus on: (1) independence; and (2) anti-social forces.

We will conduct anti-social forces checks on potential counterparties through a private investigation company, an independent third party, that has access to a database of information collected from newspapers and other publicly available sources. We will also, to the extent possible, inspect the commercial registers of our G-prize wholesalers to cross-check their directors to review their independence from us. If it is found that any potential G-prize wholesaler belongs to or is related to the Japanese mafia or other anti-social force, or is not independent of us, we will not engage with that G-prize wholesaler.

If we really do engage a new G-prize wholesaler, we will require them to deliver written declarations stating (among others) that they are independent of us and the G-prize buyers with whom they contract, and that they (including their shareholders, directors and prize buyers they contract with) do not have any connections to the Japanese mafia or other anti-social forces. We will also request our G-prize wholesalers to conduct regular background checks against any G-prize buyers engaged by them to review any anti-social force or independence issues between themselves. Ultimately, we will also subject them to the same ongoing independence controls that apply to our existing G-prize wholesalers. See “Applicable Laws and Regulations — C. Legality of Pachinko Businesses and the Three Party System — 3. Three Party System — Our internal control procedures to ensure our independence”. The same will apply to any new G-prize buyer.

### **Pachinko Halls**

We operate all of our halls under our *NIRAKU* brand and our halls can be identified by our *NIRAKU* logos as depicted below:



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Our halls can be categorised into suburban halls and urban halls.

1. **Suburban halls** are our primary business focus, representing 91.5%, 91.9%, 92.3% and 91.9% of our total revenue for our pachinko and pachislot business for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014. They are typically located in the suburbs (areas with relatively low population density, such as the suburbs of Fukushima Prefecture (福島県)), require car access and provide parking spaces (including for the disabled). Generally, customers are the self-employed (such as farmers and fishermen), factory workers and retirees, and these halls are generally larger with around 400 to 700 machines. Gross pay-ins from peak operation hours (which are typically from 12:00 noon to 5:00 p.m.) on average accounted for approximately 45% of the daily gross pay-ins of our suburban halls during the Track Record Period.
2. **Urban halls** are typically located in urban areas (areas with relatively high population density, such as Tokyo (東京都)) and within walking distance of a train station. Generally, customers are full-time employees of urban areas and these halls are generally smaller with around 200 to 300 machines. Gross pay-ins from peak operation hours (which are typically from 5:00 p.m. to 10:00 p.m.) on average accounted for approximately 41% of the daily gross pay-ins of our urban halls during the Track Record Period.

Some additional typical characteristics of our halls are:

- feature a mix of pachinko and pachislot machines and a mix of low and high playing cost machines (within which there can be a mix of high and low jackpot probability);
- feature a general prize display section where customers can select general prizes, and also a prize exchange counter where customers exchange balls or tokens for such general prizes or G-prizes;
- offer both G-prizes and general prizes (with a broad selection of approximately 280 to 1,400 types of general prizes, including our private brand products, depending on the size of our halls);
- smoking on the premises is permitted;
- provide snack and beverage vending machines (which are installed and maintained by independent vending machine operators); and
- many of our suburban halls feature a noodle shop or cafe (whose operations are outsourced to independent third parties).

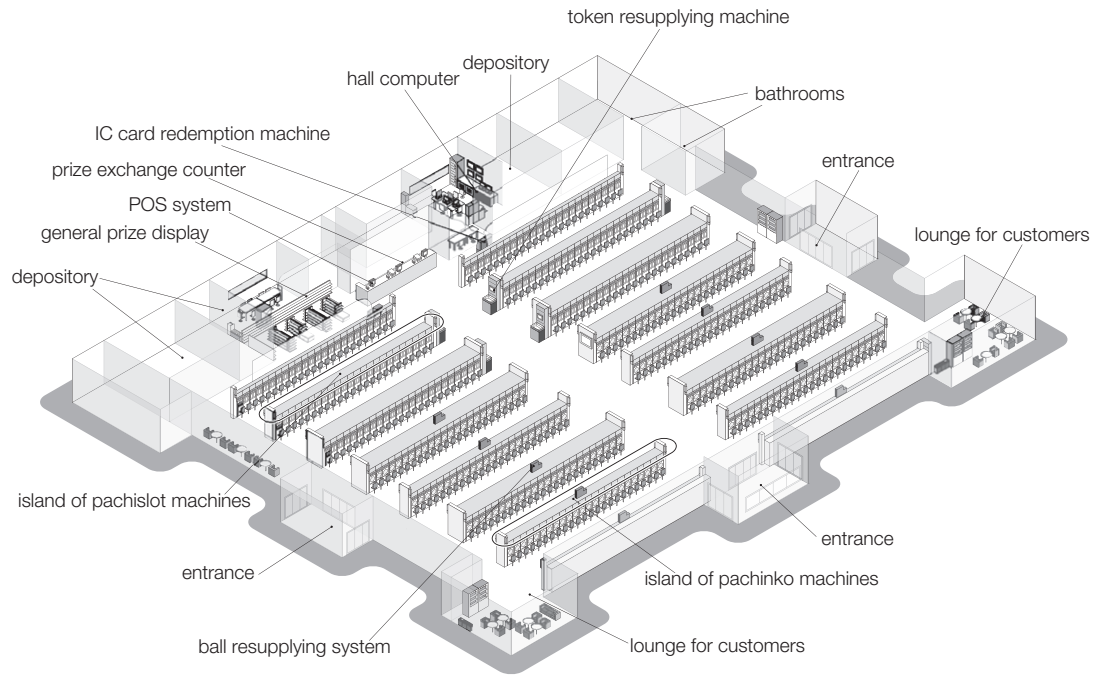
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## BUSINESS

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Also, for our suburban halls, we are dedicated to ensuring that their external architecture is in harmony with their surroundings, through the use of minimalistic designs (featuring basic geometry) and softer earth-tone colours. As for the interior design of our suburban and urban halls, it is bright and neat with a standardised layout. All in all, we believe the external and internal design of our halls create a welcoming and relaxing gaming experience for our customers.

A typical layout for our pachinko halls is shown below:



The exact number and proportion of pachinko and pachislot machines in each hall are determined by population and mix of machines provided by competitors in the area and also customer preferences. All of our halls have a standardised layout featuring many “islands”, or rows of around 10-24 machines each, separated by aisles. Each island features machine of the same playing cost (e.g. only ¥1 pachinko machines or only ¥20 pachislot machines). The vast majority (around 90% of our halls) of our machines have an automatic calculation function to count the number of balls or tokens collected. For those machines that do not have such function, there are jet counters at the end of the islands that can perform the same function. There are also IC card machines in our halls.

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We utilise a centralised management strategy, which leverages the economies of scale of our significant presence and strategic geographical focus in Northeast Honshu (本州島東北), to centralise and standardise processes throughout our business, from branding and construction to management, new hall development, machine procurement, prize procurement recruitment and training of full-time employees, internal audit and daily operations. This strategy has resulted in significant cost savings and operational efficiencies. Therefore, in accordance with our centralised management strategy, the general features of our halls remain constant regardless of their location, which in turn helps us establish strong brand recognition, thus, further improving our player traffic and customer loyalty.

The number of our halls has increased (with no closures) during the Track Record Period and up to the Latest Practicable Date as a result of our ongoing strategy to continually expand (especially our suburban hall network) in Northeast Honshu (本州島東北). The table below shows the movement of each type of our operating halls during the indicated periods:

	Year ended 31 March			Six months ended 30 September	From 1 October 2014 to the Latest Practicable Date
	2012	2013	2014	2014	
<b>Halls at the beginning of the period</b>					
Suburban halls . . . . .	40	42	43	44	44
Urban halls . . . . .	8	8	9	9	9
<b>Total . . . . .</b>	<b>48</b>	<b>50</b>	<b>52</b>	<b>53</b>	<b>53</b>
<b>Halls newly opened during the period</b>					
Suburban halls . . . . .	2	1	1	—	2
Urban halls . . . . .	—	1	—	—	—
<b>Total . . . . .</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>—</b>	<b>2</b>
<b>Halls at the end of the period</b>					
Suburban halls . . . . .	42	43	44	44	46
Urban halls . . . . .	8	9	9	9	9
<b>Total . . . . .</b>	<b>50</b>	<b>52</b>	<b>53</b>	<b>53</b>	<b>55</b>

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The table below shows a breakdown of the average number of pachinko and pachislot machines for each type of hall during the Track Record Period:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
<b>Suburban halls</b>				
Pachinko .....	357	360	361	361
Pachislot .....	162	170	174	178
<b>Total</b> .....	<b>519</b>	<b>529</b>	<b>534</b>	<b>539</b>
<b>Urban halls</b>				
Pachinko .....	196	188	188	185
Pachislot .....	64	75	75	79
<b>Total</b> .....	<b>260</b>	<b>264</b>	<b>264</b>	<b>264</b>

The table below shows a breakdown of the percentage of low and high playing cost machines at each type of hall as at 30 September 2014:

	Suburban halls	Urban halls	All halls
	%	%	%
<b>Pachinko<sup>(1)</sup></b>			
High playing cost <sup>(2)</sup> .....	57.9	50.9	57.2
Low playing cost <sup>(3)</sup> .....	42.1	49.1	42.8
<b>Total</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Pachislot<sup>(1)</sup></b>			
High playing cost <sup>(4)</sup> .....	83.5	89.5	84.0
Low playing cost <sup>(5)</sup> .....	16.5	10.5	16.0
<b>Total</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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(1) The playing costs of our pachinko machines are ¥0.5, ¥1, ¥1.25, ¥2 and ¥4, while the playing costs of our pachislot machines are ¥2, ¥5, ¥10 and ¥20. Some of our halls may require the customer to absorb the consumption tax. For these halls, playing costs for pachinko machines are ¥0.54, ¥1.08, ¥2.16 and ¥4.32, while playing costs for pachislot machines are ¥5.4, ¥10.8 and ¥21.6. Our Japan Legal Adviser has confirmed that such playing costs are in compliance with the Amusement Business Law and the Enforcement Ordinance.

(2) Comprises pachinko machines with playing costs of ¥4 per ball or above.

(3) Comprises pachinko machines with playing costs below ¥4 per ball.

(4) Comprises pachislot machines with playing costs of ¥20 per token or above.

(5) Comprises pachislot machines with playing costs below ¥20 per token.



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The table below shows the gross pay-ins and revenue for our pachinko and pachislot business by type of hall for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	¥	%	¥	%	¥	%	¥	%	¥	%
	(in millions, except for percentages)									
	(unaudited)									
<b>Gross pay-ins<sup>(1)</sup></b>										
Suburban halls . . . . .	206,437	91.8	224,493	92.7	219,455	92.8	111,650	92.5	84,175	92.5
Urban halls . . . . .	18,531	8.2	17,724	7.3	16,994	7.2	9,024	7.5	6,814	7.5
<b>Total . . . . .</b>	<b>224,968</b>	<b>100.0</b>	<b>242,217</b>	<b>100.0</b>	<b>236,449</b>	<b>100.0</b>	<b>120,674</b>	<b>100.0</b>	<b>90,989</b>	<b>100.0</b>
<b>Revenue from pachinko and pachislot business<sup>(2)</sup></b>										
Suburban halls . . . . .	27,113	91.5	29,342	91.9	30,452	92.3	14,727	92.1	13,968	91.9
Urban halls . . . . .	2,515	8.5	2,577	8.1	2,542	7.7	1,265	7.9	1,223	8.1
<b>Total . . . . .</b>	<b>29,628</b>	<b>100.0</b>	<b>31,919</b>	<b>100.0</b>	<b>32,994</b>	<b>100.0</b>	<b>15,992</b>	<b>100.0</b>	<b>15,191</b>	<b>100.0</b>

(1) Represents the amount received from customers for rented pachinko balls and pachislot tokens.

(2) Represents gross pay-ins less gross payouts.

The table below shows the revenue margin (namely, our revenue from pachinko and pachislot business divided by gross pay-ins) for our pachinko and pachislot business by type of hall, type of machine and by playing cost for the indicated periods:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	%	%	%	%	%
<b>Suburban halls</b>					
Pachinko machines . . . . .	12.3	12.4	13.4	12.6	15.4
High playing cost . . . . .	10.5	10.7	11.8	10.9	13.4
Low playing cost . . . . .	24.3	23.2	22.7	22.0	26.3
Pachislot machines . . . . .	15.1	14.4	14.8	14.5	18.9
High playing cost . . . . .	14.7	14.1	14.5	14.2	18.6
Low playing cost . . . . .	27.5	23.2	20.6	20.6	27.2
Overall for suburban halls . . . . .	13.1	13.1	13.9	13.2	16.6

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	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	%	%	%	%	%
<b>Urban halls</b>					
Pachinko machines . . . . .	13.0	14.3	14.8	13.9	17.8
High playing cost . . . . .	11.5	12.5	12.5	11.5	15.0
Low playing cost . . . . .	24.5	23.1	23.5	23.0	28.0
Pachislot machines	15.6	15.3	15.5	14.5	18.4
High playing cost . . . . .	15.6	15.4	15.3	14.3	18.3
Low playing cost . . . . .	N/A <sup>(Note)</sup>	2.7	20.8	19.3	21.9
Overall for urban halls . . . . .	13.6	14.5	15.0	14.0	17.9
<b>Overall revenue margin for our Group . . . . .</b>	<b>13.2</b>	<b>13.2</b>	<b>14.0</b>	<b>13.3</b>	<b>16.7</b>

*Note:* Low playing cost pachislot machines were only introduced to urban halls in March 2013. The revenue margin was low compared to other periods as the payout ratio of such machines were set at a higher level for promotion purpose.

For the three years ended 31 March 2014, the revenue margin for high playing cost machines was generally stable, while the revenue margin for low playing cost machines generally decreased, especially for our suburban halls. There was a decrease in the utilisation rate for all of our machines, meaning that players were spending less time playing our machines. For example, the utilisation rate decreased from 34.4% to 27.9% for high playing cost pachinko machines and from 39.6% to 35.8% for low playing cost pachinko machines. For our high playing cost machines, the payout ratio slightly decreased during these three years, which helped offset the negative effect on revenue of the fall in utilisation rate and ultimately led to a stable revenue margin. However, for our low playing cost machines, since they only accounted for less than 20% of our revenue, we maintained a similar payout ratio, which, coupled with the slight reduction in utilisation rate, ultimately resulted in a decrease in the revenue margin.

For the six months ended 30 September 2014, we imposed G prize mark-ups (effective from 1 April 2014), ranging from 4% to 20% (with an average of around 10%). This helped to raise the revenue margin for both high playing cost and low playing cost machines, despite the drop in our overall pachinko machine utilisation rate from 34.5% to 27.5% compared to the corresponding period of the previous year.

For further details of utilisation rate, see “Financial Information — Results of Operations of Our Group — Description of Components of Results of Operations — Gross pay-ins”.

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Regarding revenue contribution, for the years ended 2012, 2013 and 2014, our top five halls (all being suburban halls) contributed 18.0%, 17.6% and 17.2%, while our top ten halls (all being suburban halls) contributed 33.0%, 32.0% and 31.5%, of the revenue from our pachinko and pachislot business, respectively.

### ***Machine maintenance and the business performance of our halls***

We conduct regular maintenance for our pachinko and pachislot machines, which in turn can affect the business performance of our halls.

As stated above, our revenue from pachinko and pachislot business represents gross pay-ins (amount received from balls and tokens rented to customers) less gross payouts (aggregate cost of prizes exchanged by customers).

Gross pay-ins is primarily affected by the level of customer spending in our halls, which is in turn largely affected by: (1) G-prize mark-ups; (2) payout ratios; (3) number, types and mixes of machines; (4) number and types of halls; (5) number and playing time of customers; (6) competitors' behavior and the general trend of the pachinko industry; and (7) macroeconomic factors (such as tax and inflation). On the other hand, gross payouts is to a large extent affected by G-prize markups and payout ratios of our machines. Payout ratios is affected by the mix of machines with various specifications, which include matters such as playing costs (as usually low playing cost machines are preset with a lower payout ratio), jackpot probability (including the jackpot size, i.e. the number of balls or tokens won from hitting a jackpot during the jackpot mode, which is randomly fixed by the machine's in-built computer chip) and, significantly, pin angles (for pachinko machines only) and the machine's payout setting (for pachislot machines only).

Among the financial and operational metrics mentioned above, payout ratios is one of the factors that hall operators can most readily influence, namely through maintenance and adjustments of pin angles (for pachinko machines) and adjusting the payout setting (for pachislot machines), both while ensuring full and consistent compliance with the legally required ranges on payout ratios. See "Financial Information" for details on each of the financial metrics mentioned above.

### *Pachinko machines — pin angle maintenance and adjustments*

Pin angles impact the distance between the ends of each pin, which in turn directly influences the likelihood that balls fall into the designated pockets that release bonus balls, trigger jackpots, or conversely, fall into the trap and become lost. Therefore, pin angles have a direct impact on payout ratios and ultimately gross payouts and revenue. However, pin angles often shift during the normal course of play on a pachinko machine as the pachinko balls cascade down, through and collide into the pins in the playing field, which consequentially changes payout ratios of pachinko machines. There are required ranges under law for payout ratios.

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Therefore, consistent with industry practice, we generally perform regular maintenance and adjustments on the angle of the pins of our pachinko machines in order to ensure full and consistent compliance with such required ranges on payout ratios. For example, the number of balls that a pachinko machine may pay out must be between 0.5 to 2.0 times the number of balls put into play over a continuous 10-hour period. Our Japan Legal Adviser has advised us of the three criteria that must be satisfied in respect of such pin angle maintenance and adjustments, namely: (1) such pin angle maintenance and adjustments do not involve any bending or other modification of the shape of the pins; (2) the purpose of such pin angle maintenance and adjustments is to ensure compliance with the relevant required ranges and to maintain an average payout ratio for each pachinko machine that is in compliance with the relevant required ranges; and (3) the payout ratio of the pachinko machine for which the Maintenance and Adjustment of Pins has been completed remains within the required range. Our Japan Legal Adviser has also advised us that: (1) provided that the above three criteria are satisfied, we may conduct such pin angle maintenance and adjustments anytime; (2) we have strictly complied with such criteria; and (3) ultimately, the pin angle maintenance and adjustments conducted by our Group are in full compliance with the Amusement Business Law and the Enforcement Ordinance. See “Applicable Laws and Regulations” for details on the required ranges for payout ratios of pachinko machines.

### *Pachislot machines – adjustments of payout settings*

A player wins bonus pachislot tokens if the images on the reels form a winning combination. The amount of payouts for a particular winning combination may differ from machine to machine, as each pachislot machine has adjustable payout settings. These settings are designed and preset solely by the machine manufacturer, come in-built into the machine and can only be adjusted by our hall operations staff. There are a range of payout settings, all of which must fall within the range required under the Enforcement Ordinance. For example, the number of tokens that a pachislot machine may pay out must be between 0.55 to 1.2 times the number of tokens put into play over 17,500 continuous plays. The machine manufacturer must ensure such payout settings are in full compliance with these required ranges in order for the machine to pass the examination on specifications etc. as required under the Amusement Business Law. See “Applicable Laws and Regulations” for details on the required ranges for payout ratios of pachislot machines.

Consistent with industry practice, we regularly adjust these payout settings of our pachislot machines in order to improve the business performance of our halls. Our Japan Legal Adviser has advised us that our adjustments of payout settings for our pachislot machines are in full compliance with the Amusement Business Law and the Enforcement Ordinance.

### *Commercial aim*

While ensuring such full and consistent compliance with the required ranges on payout ratios under law, we also determine our target payout ratio from a commercial standpoint mainly based on: (1) our understanding of local customer preferences; (2) the cost structure of our halls; and (3) the competitive landscape in the vicinity of each of our halls (including market intelligence on the payout ratios of our competitors). Ultimately, our commercial aim is to adjust the payout

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setting (for pachislot machines) or maintain the pins (for pachinko machines) in strict compliance with applicable laws (for pachinko machines) in such a way that maximises our revenue from pachinko and pachislot business by striking the optimal balance between gross pay-ins and revenue margin. For example, we believe players that prefer low playing cost machines are generally more attracted to the entertainment element of pachinko and pachislot, which means they are less sensitive to movements in payout ratio and are more prepared to accept a lower payout ratio. On the other hand, we believe players that prefer high playing cost machines are generally more attracted to the chance element of pachinko and pachislot (to win a larger amount of prizes), which means they are more sensitive to payout ratios and are more prepared to accept a higher payout ratio.

### ***Centralised hall management strategy***

We utilise a centralised management strategy, which leverages the economies of scale of our significant presence and strategic geographical focus in Northeast Honshu (本州島東北), to centralise and standardise processes throughout our business, from branding and construction to management, new hall development, machine procurement, prize procurement recruitment and training of full-time employees, internal audit and daily operations. This strategy has resulted in significant cost savings and operational efficiencies. Therefore, in accordance with our centralised management strategy, the general features of our halls remain constant regardless of their location, which in turn helps us establish strong brand recognition, thus, further improving our player traffic and customer loyalty.

### **NEW HALL DEVELOPMENT**

In conjunction with our expansion strategy, we continually strive to identify potential locations for new suburban halls. When selecting a location for opening a new suburban hall, we consider the following characteristics of the targeted region: (1) its proximity to Fukushima Prefecture (福島県) and Tokyo (東京都) (and most preferably being located in Northeast Honshu (本州島東北)); (2) its proximity to our own halls; (3) the population density and demographic, (4) the number of competing halls, (5) the number of machines in the competing halls; and (6) the average number of players per machine. As a general rule, for our suburban halls, there must be commercial areas within a 15 minute drive radius, and such radius must cover at least 50,000 people and have at least 18 people (above 18 years old) per machine (owned by all operators). The investment payback period should be no more than seven years.

Our process for hall openings is also centralised and based on the following steps: (1) our hall development department selects a potential location; (2) our hall development department conducts a primary property survey to judge the suitability of the target property, taking into account its location, accessibility, economic conditions, customer flow and competitive environment; (3) if results of the primary property survey are satisfactory, our sales department, corporate planning department and sales strategy department will then conduct a secondary location survey to provide a second opinion on the location; (4) both survey results will be presented to our Directors for approval; (5) our hall development department will prepare an

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investment plan; and (6) such investment plan will be approved by a management committee consisting of our Directors, and our Board will make the final decision. This process typically takes about two months. Subsequent construction and design of an acquired property will take about six months.

Currently, we plan on opening new suburban halls (by leasing the relevant properties) in the following regions and closing three urban halls in Tokyo (東京都) during the three years ending 31 March 2018 as set out in the table below:

Prefecture	Number of operating halls as at the Latest Practicable Date	Expected net hall openings during the year ending 31 March			Expected number of operating halls by 31 March 2018 <sup>1</sup>
		2016	2017	2018	
<b>Tohoku region (東北地方)</b>					
Fukushima Prefecture (福島県) . . . . .	20	1	1	1	23
Miyagi Prefecture (宮城県) . . . . .	1	—	—	—	1
Yamagata Prefecture (山形県) . . . . .	2	—	—	—	2
<b>Kantō region (関東地方)</b>					
Tokyo (東京都) . . . . .	12	-3*	—	—	9
Gunma Prefecture (群馬県) . . . . .	4	1	—	—	5
Ibaraki Prefecture (茨城県) . . . . .	4	1	1	—	6
Kanagawa Prefecture (神奈川県) . . . . .	2	—	—	—	2
Saitama Prefecture (埼玉県) . . . . .	5	—	—	—	5
Tochigi Prefecture (栃木県) . . . . .	2	—	—	1	3
<b>Chūbu region (中部地方)</b>					
Niigata Prefecture (新潟県) . . . . .	3	—	—	—	3
<b>Total</b> . . . . .	<b>55</b>	<b>0</b>	<b>+2</b>	<b>+2</b>	<b>59</b>

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\* We intend to close down three of our urban halls in Tokyo (東京都) by the end of 2015. Two of these are loss-making and will be closed down by us as part of our strategy to improve the performance of our urban hall network. See “Business — Strategies — Improve the performance of our urban halls”. As for the third hall, it has been profit-making but will also be closed down by the end of 2015 purely due to city planning by the government of Tokyo (東京都) and we do not expect such closure to cause any negative financial impact as we expect to receive full compensation (including loss of income) from such government. We will consider using the existing staff and machines for these three halls (that are expected to be closed down) for either our existing halls or our new suburban halls to be opened in the next three years.

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Our plans for expansion are based on various assumptions, including: (1) industry trends continuing to develop as we anticipate, including the favourable market opportunities arising from the industry consolidation (as a result of the shrinking industry) and high industry fragmentation, as well as growing hall size; (2) our ability to respond to changes in the competitive landscape, both with respect to other pachinko hall operators as well as other types of entertainment; (3) our ability to respond to changes in the regulatory environment for pachinko in Japan if any; (4) favourable economic, political and other conditions in Japan and elsewhere in Asia; and (5) our future financial condition, results of operations and cash flows. Further, the estimated cost of setting up a new suburban hall (with around 640 machines) is on average around ¥1,200 million, including initial machine costs and land costs.

### CUSTOMERS

Our revenue from pachinko and pachislot hall operations consists of: (1) revenue from pachinko and pachislot business, which in turn represents gross pay-ins less gross payouts; and (2) vending machine income.

The vast majority of our customers consist of customers of our pachinko and pachislot business, being members of the general population who play at our pachinko halls. We believe that our customers cover a relatively broad range of players in terms of age demographic and income group. Customers for our suburban halls are usually the self-employed (such as farmers and fishermen), factory workers and retirees, while customers for our urban halls are usually full-time employees.

As a pachinko hall operator, we have a large and diversified customer base across Japan. We did not rely on any single customer.

Regarding our vending machine business, we enter into service agreements with various vending machine operators, which are major manufacturers of drinks or food. They will install and maintain various vending machines at our halls, while we in turn receive from such vending machine operators a concession for each machine: (1) ranging from approximately ¥2 million to ¥10 million, payable upon the commencement of the installation period; and (2) ranging from approximately ¥0.3 million to ¥7 million, payable upon the renewal of each installation period. The installation period is usually three years. Also, we share approximately 30% to 50% of the gross proceeds from these vending machines. These vending machine operators are responsible for stocking, repairing and maintaining their machines.

All of our vending machine operators are independent third parties.

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### SUPPLIERS

Our major suppliers consist of: (1) machine suppliers; (2) G-prize wholesalers; and (3) general prize suppliers.

All of our suppliers are independent third parties. None of our Directors, their associates or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest suppliers during the Track Record Period.

#### 1. Machines

In conjunction with sourcing, transferring and disposal of the pachinko and pachislot machines in our halls, we operate a centralised system to: (1) gather information on machine utilisation in our halls and necessary market information for planning purposes; (2) confirm with manufacturers and dealers the availability of machines; (3) procure new machines; (4) procure second-hand machines; and (5) manage, schedule and coordinate the allocation, disposal or replacement of machines.

#### ***New and second-hand machines***

Machine procurement is very important to our business as it is critical to boosting player traffic. We do not manufacture any of our playing machines. Instead, we purchase pachinko and pachislot machines regularly for installation in our new halls, or to replace older machines in our existing halls, in order to boost player traffic and to keep up with changing customer preferences and modern trends (by acquiring the latest machine models which we believe appeal to customers). The number of machines we purchase each year is typically similar to the number of all machines in our halls, which means that almost all machines are replaced once a year.

In order to purchase machines, we either purchase: (1) new machines from machine manufacturers; or (2) second-hand machines from dealers.

Most of our machine purchases are for new machines from machine manufacturers. The main reason is to boost player traffic by acquiring the latest machine models, which are typically more popular than older models. This is especially so for high playing cost machines, which constitute the majority of our machines. Selection of new machines is also highly dependent on the machine manufacturers, who generally conduct their own market research to design new machines and marketing. As such, player interest in specific new models is largely influenced by machine manufacturers.

We sometimes also purchase second-hand machines from dealers. This is because there is a portion of machines (already introduced into the market) that remain popular for a relatively long time and continue to generate sufficient revenue. However, machine manufacturers typically only sell a particular model for a limited time and with a limited supply, after which new production will be discontinued. As such, for these older yet still popular models, we need to rely on dealers.



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Also, when we purchase new machines to replace existing machines, such replaced machines are often transferred to one of our warehouses for storage or even potential further use. We may later transfer such replaced machines to another hall for further use based on customer preferences in that area, which will result in cost savings.

The table below shows a breakdown of the total cost and number of pachinko and pachislot machines purchased from machine suppliers or second-hand dealers during the Track Record Period:

	Year ended 31 March						Six months ended 30 September	
	2012		2013		2014		2014	
	¥	%	¥	%	¥	%	¥	%
<b>(in millions, except for percentages)</b>								
<b>Cost of machine</b>								
New . . . . .	7,072	98.8	7,858	98.9	8,124	98.9	4,452	99.3
Second hand . . . . .	54	0.7	51	0.6	54	0.7	17	0.4
Storage charges . . . . .	35	0.5	39	0.5	38	0.5	13	0.3
<b>Total . . . . .</b>	<b>7,161</b>	<b>100.0</b>	<b>7,948</b>	<b>100.0</b>	<b>8,216</b>	<b>100.0</b>	<b>4,482</b>	<b>100.0</b>
<b>(number of machines, except for percentages)</b>								
<b>Number of machines purchased</b>								
New . . . . .	19,784	95.1	21,550	93.3	21,549	91.4	11,900	96.5
Second hand . . . . .	1,021	4.9	1,544	6.7	2,030	8.6	427	3.5
<b>Total . . . . .</b>	<b>20,805</b>	<b>100.0</b>	<b>23,094</b>	<b>100.0</b>	<b>23,579</b>	<b>100.0</b>	<b>12,327</b>	<b>100.0</b>

Our area managers reviews and makes decisions for each pachinko hall regarding its mix of machines on a weekly basis. Our area managers will place any requests to the manager of our sales department for new or second-hand pachinko and pachislot machines using our Machine Management System. We negotiate the relevant sales agreements with manufacturers or dealers, specifying the number and type of machines, price, payment method and the hall(s) in which the machines are to be installed. The manager of our sales department decides how many and which machines to purchase, arranges the purchase, places the order with the manufacturer or dealer, obtains confirmation from the manufacturer or dealer and arranges for delivery of the machines directly to the appropriate hall. Our sales department also determines the annual budget for machine purchases for each hall based on a percentage of each hall's revenue, subject to a maximum amount.

### **Machine suppliers**

Our sales support department maintains a list of approved machine suppliers. We generally settle our payments in full with our machine suppliers in the month following the date of purchase of the machines.

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For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our five largest machine suppliers accounted for 56.5%, 48.4%, 54.4% and 53.8%, of our total purchases of pachinko machines and pachislot machines, while our single largest machine supplier accounted for 20.2%, 15.3%, 17.5% and 12.5%, of our total purchases of machines, respectively.

### ***Removal and disposal of machines***

We arrange for removal and disposal of old machines from the pachinko halls. Old machines may be: (1) transferred to one of our warehouses for storage and potential future use; (2) traded in to a machine supplier for a discount on a new machine; or (3) sold to second-hand dealers through an auction process to the highest bidder. Sometimes we might only sell certain parts of an old machine. If a machine is traded in for a new machine to the original manufacturer, the manufacturer purchases the entire machine in order to reuse certain components.

### ***Compliance***

Our machine purchase agreements require us and our counterparty to comply with the Amusement Business Law. In addition, we generally undertake and warrant in the agreements that we are not in violation of the laws regarding adjustment or remodelling of machines and that we will permit the Organisation for Sound Development of Pachinko & Pachislot Industry\* (遊技産業健全化推進機構), a third party self-regulatory organisation in Japan, to inspect our machines.

There are several regulations governing pachinko and pachislot machines. See “Applicable Laws and Regulations – D. Other Regulations on Pachinko Businesses” for details.

According to the Amusement Business Law and National Public Safety Commission regulation, pachinko and pachislot machines must meet certain technical standards. The Amusement Business Law also requires each pachinko hall to obtain prior permission from the Prefectural Public Safety Commission\* (都道府県公安委員会) before increasing or changing its number of machines (including the transfer for a machine to a different hall). Before a new or second-hand machine is shipped to us, the prefectural police must certify the eligibility and compliance of the machine or replacement part, which is evidenced by a “notice of inspection” issued to the manufacturer (for new machines) or dealer (for second-hand machines) who then provide the Notice of Inspection to us. In addition, the machines are inspected at the pachinko hall where they are to be installed. The manufacturer (for new machines) or the dealer (for second-hand machines) also provides us with certificates of guarantee certifying that the machines they provide to us, which are individually identified by a unique serial number, have been inspected by the local police authorities. A similar notice and certificate are issued when machine parts are replaced. In addition, prior to operation of a new or second-hand machine, the pachinko hall must submit an application to the local police authority to request an inspection, upon completion of which an approval is granted and operation of the machine may begin. The police may inspect the machines at random after installation in the pachinko hall.

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A person who intends to manufacture or import a pachinko or pachislot machine or to install it may, but is not legally required to, apply for an inspection of the machine by the Security Communications Association\* (保安通信協会) for specifications of such imported or manufactured pachinko or pachislot machine. A machine manufacturer typically submits its machine prototypes to testing by the Security Communications Association\* (保安通信協会). Machine prototypes that pass such testing receive certificates. Each machine subsequently manufactured according to that prototype will also have a certificate showing its compliance with such testing. Purchasing machines from manufacturers that have received this approval reduces the risk of installing machines that do not comply with the legal requirements. A pachinko operator that intends to increase or change its number of machines, including the transfer of a machine to a different pachinko hall, must obtain prior written permission from the Prefectural Public Safety Commission\* (都道府県公安委員会).

As we only purchase machines from manufacturers that submit their machine prototypes for testing by the Security Communications Association\* (保安通信協会), our pachinko and pachislot machines each have a certificate demonstrating compliance with those tests and have passed all inspections conducted by the relevant Prefectural Public Safety Commission\* (都道府県公安委員会) during the Track Record Period.

The license, approval or permit requirements under Japan law and regulations for dealing in pachinko and pachislot machines are limited to a permit for dealing in second-hand goods under the Used Goods Dealer Act. This permit is issued by the Prefectural Public Safety Commission\* (都道府県公安委員会).

The pachinko and pachislot machines we purchase are pre-programmed by the manufacturer to comply with legal and technical specifications, such as payouts and probabilities of triggering certain modes of play (e.g. “jackpot” mode for pachinko or “bonus rounds” for pachislot).

The payouts of pachinko balls and pachislot tokens resulting from “jackpot” or “bonus” modes as a percentage of total balls or tokens played is limited by law so as to discourage playing with the sole purpose of winning or “gambling”. These required ranges include: (1) the number of pachinko balls that the machine may pay out to between 0.5 to 2.0 times the number of balls put into play over a continuous 10-hour period; and (2) the number of pachislot tokens that the machine may pay out to between 0.55 to 1.2 times the number of tokens played during the course of 17,500 consecutive plays. These restrictions are contained in the Amusement Business Law, or its subordinate regulations, and are fully available to the public. For further information, see “Applicable Laws and Regulations — D. Other Regulations on Pachinko and Pachislot Businesses”. See “— Pachinko and Pachislot Hall Operations — Pachinko Halls — Machine maintenance and the business performance of our halls” for details on our regular maintenance on our pachinko and pachislot machines and its effect on payout ratios and ultimately the business performance of our halls.

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By collecting data from our machines through our numerical analysis system on every 15 minutes, we are able to monitor the performance of our machines and determine whether they remain in compliance with applicable regulations. In the event that we detect significant fluctuations in this data, we are able to use this data to locate the machines that are not performing properly and instruct our hall managers to make the appropriate daily maintenance to ensure compliance. See “— Information Technology” in this section below for more on the types of data collected from our machines.

### **2. General Prizes**

We currently purchase our general prizes from 26 general prize suppliers. Our purchasing department is responsible for general prize procurement (typically twice a week), which is facilitated by the daily inventory checks conducted via our Prize Management System. See “— Information Technology” in this section below for further details about our Prize Management System. Each hall manager is also responsible for conducting daily inventory checks of general prizes at their hall. Generally, the same types of general prizes are offered at each of our halls though larger halls (such as suburban halls) will offer more types.

To select our general prize suppliers, our purchasing department submits a written request for approval with our corporate planning section (which oversees compliance matters), our finance department and our Executive Director. Our general prize suppliers are selected based on the transparency of their operations, distribution network, logistics and inventory control capabilities and availability of supplies. In particular, we conduct anti-social forces checks through a private investigation company, an independent third party, that has access to a database of information collected from newspapers and other publicly available sources. If it is found that any of a potential general prize supplier’s representatives, officers, executive officers or main shareholders (if they are listed companies) belongs to or is related to any anti-social force, we do not engage with that entity.

We enter into continuous purchase agreements with some of our general prize suppliers, pursuant to which we place orders based on our inventory needs. These purchase agreements are typically valid for a year, and are automatically renewed on a yearly basis. We have long-term relationships with almost all of our general prize suppliers. Payments to our suppliers are typically made within 60 days or on a monthly basis in the month following the month during which the goods are received. For our most popular general prizes, we utilise our POS system, through which our hall managers will place orders when the inventory of a certain prize in our Prize Management System falls below a predetermined level.

We engage several private label manufacturers (namely, local manufacturers and suppliers of foods and drinks) to produce our private brand products, which consist of foods and drinks. We believe our private brand products help attract more customers by providing a unique and additional range of general prizes.

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For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our five largest general prize suppliers accounted for 88.9%, 89.9%, 90.8% and 91.3%, of our total purchases of general prizes, while our single largest general prize supplier accounted for 39.8%, 42.0%, 44.4% and 43.9%, of our total purchases of general prizes, respectively.

### 3. G-prizes

We currently purchase our G-prizes from 12 G-prize wholesalers. Our headquarters appoints our G-prize wholesalers and enters into a standardised master agreement with each G-prize wholesaler who satisfies our background check criteria. Our headquarters assign one approved G-prize wholesaler for each of our halls. Day-to-day G-prize procurement is handled by hall staff and overseen by the hall manager at each individual hall. These duties include:

- deciding the quantity of G-prizes to be purchased each day subject to the limits set by our headquarters;
- placing purchase orders;
- checking the G-prizes delivered against the relevant purchase order;
- handling cash payments for G-prizes;
- maintaining the inventory of G-prizes; and
- counting and reconciling the number of G-prizes on a daily basis.

For information on internal control measures relating to G-prize procurement, see “Internal Controls and Anti-Money Laundering – Internal Controls Relating to Cash and G-prizes”.

For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our five largest G-prize wholesalers (which have, on average, been established in Japan for over 40 years and whose primary business includes the supply of G-prizes to pachinko hall operators) accounted for 92.8%, 91.2%, 89.7% and 89.5%, of our total purchases of G-prizes, while our single largest G-prize wholesaler accounted for 72.8%, 72.1%, 70.4% and 70.2%, of our total purchases of G-prizes, respectively.

## MARKETING AND MARKET RESEARCH

Our sales and marketing department engages in a variety of marketing activities to promote our pachinko and pachislot business. For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, we spent ¥939 million, ¥1,231 million, ¥1,362 million and ¥680 million on advertising, representing 3.9%, 4.7%, 5.0% and 4.7% of our total expenses (the total of hall operating expenses and administration and other expenses), respectively.

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### Membership system

We have implemented a voluntary membership system, which is open to all our customers. Our membership system is designed to enhance customer loyalty, by providing them the convenience of carrying over any unused pachinko balls or pachislot tokens for their subsequent visits. This also increases customers' spending and our cash flow, as customers are more likely to purchase a larger amount of balls or tokens with each purchase.

The key terms of our membership system are: (1) if a member has any unused balls or tokens, these will be stored on our IT systems and can be carried over for use or prize exchange at their subsequent visits; (2) such carried-over balls or tokens can only be used in the hall where such membership was registered; (3) there are no expiry for such carried-over balls or tokens; (4) customers may carry over a maximum of 999,999 balls and 199,999 tokens; and (5) customers may also store up to ¥10,000 in cash on the membership card, which will be forfeited if the membership card is unused for 90 consecutive days.

Each of our halls maintains its own register of members and each customer can only apply for one membership card per hall. To register as a member and to receive such membership card, a customer must provide age proof and their identification card. Members need to enter a password or present their identification card whenever they wish to use their membership card, thus, helping to ensure the non-transferability of any carried-over balls or tokens.

The Amusement Business Law prohibits the issuance of valuable papers to customers. Any carried-over balls or tokens are strictly not stored on our membership cards themselves, but only on our IT systems. Such membership cards only store personal information of our members. Therefore, our Japan Legal Adviser has confirmed that our membership cards shall not be construed to be "valuable papers" and that our membership system is in compliance with applicable Japan laws and regulations. See "Applicable Laws and Regulations — D. Other Regulations on Pachinko and Pachislot Businesses — 6. Membership Systems" for details.

Our membership system also allows us to collect statistical information regarding our customers' identities, age, frequency of visits, locations of halls visited, amounts of purchases (including breakdown of tokens and balls), number of balls or tokens exchanged for prizes and preferences for various types of machines. Our sales and marketing team regularly analyses such information and uses it to design appropriate marketing strategies and activities, as well as to help our hall managers better plan the overall mix of machines at each of our halls, to better encourage recurring visits from such customers.

As at 30 September 2014, we had 226,848 members.

### Advertising

We conduct advertising, sales promotion activities to support our pachinko and pachislot hall operations. Our sales and marketing team designs and conducts our advertising media and sales promotion activities.

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Most of our advertising activities are designed to raise awareness for our pachinko and pachislot games (especially new machines and new halls) and attract them to visit our halls. We have multiple advertising streams, including television, radio, flyers, direct mail, newspaper and also signboards inside and outside our halls. In particular, when customers join our membership system, they are asked whether they wish to receive specific advertisements. If they choose so, we will send such members direct mail containing information of new machines or seasons' greetings.

Also, we are the official sponsor for a local professional basketball team in Fukushima Prefecture (福島県), whose uniforms display our "NIRAKU" logo, as a means to further improve our brand awareness.

In Japan, the Amusement Business Law requires a pachinko hall operating licence holder to advertise or promote their business in such a way that it will not likely interfere with the peace and quiet surrounding the place of business. Under the Standards for the Interpretation and Operation of the Amusement Business Law published by the National Police Agency, the following methods of advertisement are likely to constitute an "interference with peaceful and quiet surroundings":

- displaying sexually explicit or other adult material;
- advertising or promoting the illegal maintenance and adjustments of pin angles, illegal alterations of payout probabilities or otherwise encouraging customers' "passion for gambling"; or
- noise levels beyond prescribed limits in public areas.

Failure to comply with such restrictions may result in various penalties, the most severe being a cancellation of the Operating Licence. In order to ensure our compliance with these regulations on advertising and promotional activities, our sales support department has adopted an internal guideline that strictly controls the choice of words allowed to be used in our advertising activities. Our sales support department monitors these activities, and sometimes may even consult the relevant police office to ensure compliance. For information on regulation of the pachinko industry and related advertising, see "Applicable Laws and Regulations — D. Other Regulations on Pachinko Businesses — 9. Advertising and Promotion Regulations". Our Japan Legal Adviser has confirmed that, as at the Latest Practicable Date, our Group had complied with the applicable laws and regulations concerning such advertising-related activities.

### **Corporate Social Responsibility**

We also believe it is important for us to fulfil our corporate social responsibility by continuously contributing to the society. We engage in charity activities from time to time. While charity is the primary goal, such charity activities still provide valuable exposure of our brand and enhances the public image of our brand as a socially responsible enterprise. During the years

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ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our expenses on corporate social responsibility related activities (which consisted of donations to charities for supporting the Japan earthquake reconstruction and regional events)<sup>4</sup> was ¥19.1 million, ¥10.8 million, ¥32.5 million and ¥29.9 million, respectively.

For example, after the Great East Japan Earthquake, we sponsored music festivals to raise funds for relief efforts. Also, we offered a free daily shuttle bus service for over a year, which was open to anyone wishing to travel to and from Tokyo (東京都) and Fukushima Prefecture (福島県).

In addition, in 2010, we established a wholly-owned special subsidiary\* (特定子会社), Merrist, for the purpose of hiring employees that are handicapped persons. Under the Act on Employment Promotion etc. of Persons with Disabilities\* (障害者の雇用の促進等に関する法律) (Act No. 123 of 1960), at least 2% of the employees of a Japanese company, that has at least 50 employees, must be handicapped persons. The number of handicapped persons employed by Merrist can be counted for the purpose of its ultimate holding company, our Company. As at 30 September 2014, we have hired 61 employees that are handicapped persons, which is more than double the legal requirement. Such employees are mostly stationed in our halls and responsible for relatively basic tasks such as gardening and cleaning of our halls and training facilities. In recognition of our efforts to employ handicapped persons, we have received multiple awards. See “— Awards and Accreditations” in this section below for details.

### Market Research

Every year, we purchase a market research report prepared by an independent market researcher regarding the pachinko industry. We also pay close attention to potential new machines (by both monitoring the industry trend and maintaining close contact with our machine suppliers) and customer feedback, which allows us to make better decisions for machine allocation.

Another useful market research tool is our membership system, which allows us to collect statistical information regarding our customers' identities, age, frequency of visits, locations of halls visited, amounts of purchases (including breakdown of tokens and balls), number of balls or tokens exchanged for prizes and preferences for various types of machines. Our sales and marketing team regularly analyses such information and uses it to design appropriate marketing strategies and activities, as well as to help our hall managers better plan the overall mix of machines at each of our halls, to better encourage recurring visits from such customers.

Further, for new hall openings, we follow a detailed layered process involving various surveys conducted by our hall development department, sales department, corporate planning department and sales strategy department, to determine (among others) the suitability of the

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<sup>4</sup> Such expenses formed part of the advertising expenses as included in administrative and other operating expenses.



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target property, taking into account its location, accessibility, economic conditions, customer flow and competitive environment. Such survey results will be reviewed by the head of our sales department, our hall development department and ultimately our Executive Director. See “— New Hall Development” in this section above for details.

### INFORMATION TECHNOLOGY

Our corporate management office oversees our IT system, which plays a crucial role in our Company’s business operations and streamlines the collection and preparation of financial and operational information.

Our IT system consists of a network of software systems, of which, centralised systems such as the accounting, human resources and payroll, and budget management systems are installed throughout our Company. Hall level information and data in relation to hall management, machine management, and prize management are generated and collected at each individual hall, and then transferred to the centralised systems for further analysis on a company level.

#### Centralised Systems

##### 1. *Accounting System*

Cash revenue data calculated based on the number of pachinko balls played are collected on a daily basis by the responsible officer of each individual hall after the close of business, other information on cash inflows and outflows, and goods purchase are generated and saved in the daily business report system. Each hall manager reviews and compares data collected in the daily business report system against the cash revenue data collected based on the pay-ins for the day in order to verify and ensure correspondence and accuracy of the information collected. Upon confirmation from each hall manager, such verified data is transmitted to the Accounting System at our headquarters.

Our accounting system is used to extract accounting information such as purchase and payment data, which are processed using the liabilities management function of the accounting system. Monthly depreciation and amortisation is calculated based on the information collected by the noncurrent assets management system, which stores acquisition, disposal and sales of noncurrent assets data. Such data allows the accounting system to formulate ledger sheets such as the tentative calculation sheet, balance sheet and income statement.

##### 2. *Human Resource and Payroll System*

Our Human Resource and Payroll System administers and manages personnel information of employees of our Group according to the allocation of authority in each system. Employment information, including the authority allotted to each employee in each system, is determined based on the organisation and position; therefore it is subject to change due to personnel transfers. The system manages log-in accounts on company-owned computers which employees use for executing their daily duties. Our human resources and payroll system also administers and manages salary calculation and clock-in/clock-out, as well as work hours.

### 3. ***Budget Management System***

The budget management system sets out the scope of responsibility related to each aspect of our business to clearly identify the specific measures to be adopted for each fiscal year. Based on the scope of responsibility set by our budget management system, a budget for the following fiscal year is formulated. Relevant personnel who are responsible for carrying out the scopes of responsibilities and execution of expenses are required to apply for a managerial decision through the budget management system by stating the reasons to justify such execution of expenses. After the application, those approved are executed as expenses and orders are placed. The relevant personnel are also required to analyse the budgeted expenses and the actual expenses tallied in the budget management system at the end of the month after the expenses are settled, in order to evaluate the executions of their scope of responsibilities and identify any issues arising from such executions.

### 4. ***Purchase Administration System***

Where order placements were requested through the budget management system and are subsequently approved, such order placement data will then be transmitted to the purchase administration system. Our purchase administration system administers the order placement status. Through the order confirmation process at the time of delivery of goods, details of the order confirmation is linked to the liabilities management in our accounting system as payment request data.

Based on the data transmitted through our purchase administration system from each hall, hall managers are able to formulate the pay-in rate and the projection of the number of customers who will play on each machine model. The projection of the number of customers for each machine model is tallied as monthly sales plans for each hall and area, as well as for all halls of our Company. Authorised personnel are allowed to access such sales plans, namely “52-week Sales Plans,” depending on the authority allotted to each position.

### 5. ***Security System***

Our security system records and maintains highly confidential information and data of company-wide accounting transactions, thus access is only limited to selective authorised staff who are provided with an encrypted password. Our security system is overseen by the system support division manager and security settings of the system may not be altered without the approval of the system support division manager. Our networks are protected by firewalls and anti-virus software. Access to our networks by our employees is also limited by those with password authorisation. For more information on control over these systems, see “Internal Controls and Anti-Money Laundering — Internal Controls Relating to Information Technology and Computer Systems”.

### **Hall Level Systems**

#### **1. *Hall Management System***

We have installed a computerised data processing system, generally known as “hall computer” developed by third-party manufacturers, in our pachinko halls. The system collects real-time information on the number of pachinko balls or pachislot tokens rented, played and paid out at each pachinko and pachislot machine and transmit data to our data analysis system every hour via a decrypted line so that hall managers can effectively monitor the performance of machines. If any unusual activity is detected by the system, the system would record it and alert management for a status check.

Each hall manager is granted access to view this data within their respective hall for the purpose of monitoring hall operations. The system also allows managers to quickly detect irregular activities in our pachinko halls. However, only our headquarters management team is granted access to the data collected from all of our pachinko halls for monitoring the overall performance and machine utilisation of our hall operations.

#### **2. *Machine Management System***

As a part of the operation administration system, our machine management system determines the types and numbers of pachinko and pachislot machines to be purchased at each hall. Our area managers are responsible for assessing the types and quantities of machines to be purchased, and our headquarters staff are responsible for execution of order placement. We also have in place the layout administration system, which records machine installation status, machine layout in each hall and the history of repositioning such machines. Further, the layout administration system manages other information based on the master ID of each pachinko and pachislot machine purchased. Through utilising the information maintained by the system, the application documents necessary for the administrative procedures for replacing pachinko and pachislot machines can be easily retrieved, and thus substantially reduces time and expenses.

#### **3. *Prize Management System***

Through our POS system installed in each hall, we centrally manage the procurement of our general prizes and G-prizes, including ordering, acceptance, delivery and inventory control. This information is transmitted to our prize administration system which allows us to maintain up-to-date and accurate inventories of our various prizes, consolidate orders of general prizes, and when appropriate, arrange for periodic, automatic purchases of products with a high turnover rate. This system also provides a reference point for estimating the volume of future prize redemptions based on cumulative historic data.

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### AWARDS AND ACCREDITATIONS

Our achievements over the years have been recognised by numerous awards and accreditations, including the following:

Award / Accreditation	Year of Grant	Issuer of Award
Won top award in pachinko hall section for activity of contribution to society	2014	All Japan Organisation of Social Contribution (全日本社会貢献団体機構)
Awarded as an excellent office for employment of persons with disabilities	2012	Chairman of Japan Organisation for Employment of the Elderly, Persons with Disabilities and Job Seekers (独立行政法人高齢・障害・求職者雇用支援機構理事長)
Certified as a company actively supporting child care under the Act on Advancement of Measures to Support Raising Next-Generation Children	2010 and 2012	Ministry of Health, Labour and Welfare of Japan (厚労省)
Merrist is acknowledged as a special subsidiary* (特定子会社) for the purpose of hiring handicapped persons under the Act on Employment Promotion etc. of Persons with Disabilities	2010	Ministry of Health, Labour and Welfare of Japan (厚労省)

### COMPETITION

According to EBI, the pachinko industry in Japan is highly fragmented with over 3,800 operators as at 31 December 2013. Our major competitors are pachinko hall operators located nearby our halls. See “Industry Overview” for further information on this industry.

We also compete with other types of entertainment and gaming activities, including web-based gaming, potentially interactive gaming channels, and other public racing in Japan. We may also face competition from other gaming venues, particularly casinos if legislation is eventually passed to legalise the operation of casinos in Japan. See “Risk Factors — Risks Relating to the Pachinko Industry — We face intense competition in Japan”. We compete on the basis of variety and type of pachinko and pachislot games offered, types of prizes offered at our halls and players’ other personal preferences.

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### EMPLOYEES

As at 30 September 2014, we had a total of 1,409 employees, all of whom were based in Japan, of which 1,223 were stationed in our pachinko halls. The table below shows a breakdown of the number of our employees by function as at 30 September 2014:

<b>Function</b>	<b>As at 30 September 2014</b>
Management . . . . .	14
Customer service . . . . .	2
Sales support . . . . .	16
Sales and marketing . . . . .	24
Area sales management . . . . .	13
Hall management . . . . .	53
Hall attendants . . . . .	1,177
Procurement . . . . .	4
Finance and accounting . . . . .	11
IT . . . . .	7
Others . . . . .	88
<b>Total</b> . . . . .	<b>1,409</b>

We have implemented a multi-layered management structure for our hall operations, consisting of (from highest rank): our Directors, our division manager (based in our headquarters), our 13 area managers (each responsible for overseeing the daily operations of three to six pachinko halls) and our 55 hall managers (each responsible for overseeing the daily operations of one specific pachinko hall). Generally, each manager reports directly to the relevant manager in the next higher rank. For example, hall managers regularly report to area managers, area managers report weekly to our division manager, and the entire management team meets monthly at our headquarters. Managers in the Kantō Region (関東地方) also meet weekly, as do managers in the Tōhoku Region (東北地方).

A typical pachinko hall employs 22 employees, with around 8 employees present at any time per shift. These include 1 hall manager, 4 assistant managers and the rest being full-time or part-time operational staff.

Our full-time employees may be relocated to other pachinko halls of ours, while part-time employees are typically fixed to one particular hall.

Full-time employees receive performance evaluations on an annual basis. We enter into formal written employment contracts with all our full-time staff. Consistent with common practice in Japan, such employees are subject to working regulations which we establish and keep on file with the labour standards inspection office. These working regulations covers various matters, including but not limited to hiring, compensation, insurance, annual vacation policy, duties of the employee and disciplinary measures. We provide our staff with a copy of these working

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regulations and an employee booklet upon commencement of employment. In the event of disputes regarding terms of the employment, dismissal or other related matters, we will first try resolving such disputes by way of mediation, and if it fails, the working regulations, as well as other applicable laws and regulations, will determine the respective duties and rights of us and our staff.

We also enter into employment contracts with our part-time staff. As stipulated in their contracts, the part-time or temporary staffs are subject to a 14-day probation period, salary raises but are not entitled to bonuses or retirement allowances. The employment contracts with our part-time or temporary staff also set out terms and matters such as position, term of contract, status of contract renewal, work location, work hours, annual leave and whether social insurance or employment insurance are included subject to the number of work hours per week.

Our staff costs include all salaries and benefits payable to all our employees and staff, including our Directors. Our staff costs remained relatively stable during the Track Record Period and amounted to 20.3%, 19.8%, 17.6% and 24.1% of our total revenue in the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively.

### **Labour union**

In 2005, we established a labour union, of which all of our employees (including hall managers), other than management and certain employees with access to management-level information (such as our area managers and finance, accounting and IT staff), are members. Our labour union collectively bargains on behalf of our employees for remuneration and welfare-related issues, participates in labour-management consultations and handles other consultations and investigations as necessary for the welfare of our employee members. Our labour union is also a member of UA Zensen (The Japanese Federation of Textile, Chemical, Food, Commercial, Service and General Workers' Unions)\* (全国繊維化学食品流通サービス一般労働組合同盟), which is the largest industrial union in Japan and provides guidance to our labour union on related issues, such as the proper method in communicating and bargaining with their pachinko hall operator. We have not experienced any strikes or other labour disturbances which have interfered with our operations in any material respect or any other material labour disputes with our employees. Our directors meet members of this labour union once every month to discuss any labour-related issues.

We believe that we have established good relationships and loyalty with our employees. For example, our hall managers stay with us on average for 13 years, while area managers and our senior management stay with us on average for 15 years. Also, we have also voluntarily adopted an internal policy which adheres to a guideline issued by the Ministry of Health, Labour and Welfare (厚労省), which allows all employees with children to take parental holidays. This is a voluntary higher standard than that stipulated by relevant labour laws, and the Ministry of Health, Labour and Welfare (厚労省) has issued a certificate to us in recognition of such internal policy.

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Our Japan Legal Adviser has confirmed that, as at the Latest Practicable Date, our Group was in compliance with all applicable labour and employment regulations. We currently have in place internal control systems and risk management procedures to monitor compliance with labour, employment and other applicable regulations. Going forward, our Company, through our compliance department, will continue to monitor all labour issues to ensure compliance with all applicable labour and employment regulations.

### Recruitment

Our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees, including area managers, hall managers, sales managers and staff. We believe high-quality customer service and effective management is a key attribute of our success. Our headquarters is responsible for hiring our full-time employees, while part-time employee recruitment is typically handled by our hall managers depending on the operational needs of specific halls.

Primarily, we recruit, place and train our full-time employees with a focus on fresh graduates through our annual recruitment program. We believe this allows us to hire high-quality employees in the market by offering competitive wages and benefits, focused training and internal promotion opportunities. The majority of our staff (excluding operational staff) are university graduates. We have adopted a variety of initiatives to facilitate recruitment of our staff, such as recruitment fairs, online recruitment, flyers and posters. We believe our continuous efforts will help us attract suitable personnel.

In addition, in 2010, we established a wholly-owned special subsidiary\* (特定子会社), Merrist, for the purpose of hiring employees that are handicapped persons. Under the Act on Employment Promotion etc. of Persons with Disabilities\* (障害者の雇用の促進等に関する法律) (Act No. 123 of 1960), at least 2% of the employees of a Japanese company, that has at least 50 employees must be handicapped persons. The number of handicapped persons employed by Merrist can be counted for the purpose of its ultimate holding company, our Company. As at 30 September 2014, we have hired 61 employees that are handicapped persons, which is more than double the legal requirement. Such employees are mostly stationed at our halls and responsible for relatively basic tasks such as gardening and maintenance of our halls and training facilities (including sanitisation). In recognition of our efforts to employ handicapped persons, we have received multiple awards. See “— Awards and Accreditations” in this section above for details.

### Training

During the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, we spent approximately ¥16 million, ¥60 million, ¥46 million and ¥35 million to train our staff, respectively. We own training facilities in Fukushima Prefecture (福島県) where our personnel development department conducts training sessions for both new and existing employees.

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For fresh graduate employees, they must attend our one-week orientation training, which mainly focuses on the pachinko industry history and also our history, centralised management strategy and management philosophy. Subsequent training will be on-the-job, typically consisting of operational training at a range of our halls (where they will receive field training from our hall management team) and managerial, sales management and compliance training in the relevant departments at our headquarters, coupled with periodic promotion as experience is accumulated.

For our existing employees, we provide trainings and career guidance (tailored depending on such employee's ranking and job position), including training on the Three Party System to ensure that our employees do not engage with G-prize wholesalers or G-prize buyers engaged by them, and to prevent them from unknowingly establishing a relationship with them. For example, all our Directors and senior management attended a training conducted by our Japan Legal Adviser in December 2014 on the legal, regulatory and practice requirements under the Penal Code, the Amusement Business Law and the Third Party Local Regulation, including the independence requirements within the Three Party System.

Employees that are selected for potential promotion must pass a test, after which they will be given specific training to prepare them for their promoted job position.

We also require our hall managers and area managers to rotate approximately every two years. This ensures they gain a fuller understanding of their managerial roles by having to manage multiple areas or halls.

We believe our training programmes also help to promote internal upward mobility (by helping us identify promising promotion candidates), which not only increases employee retention rates, but also produces the type and quality of management personnel needed for our expanding hall network. Another objective of our training programmes is to provide a sufficient number of well-trained employees for newly opened pachinko halls. We also send our employees to lectures hosted by the Prefectural Public Safety Commission\* (東京都公安委員会), which are designed to promote compliance with the Amusement Business Law.

## HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Our business is subject to relevant Japan national and prefectural laws, ordinance and regulations regarding health, work safety, social and environmental matters.

Regarding environmental matters, the Amusement Business Law and the prefectural ordinances sets out restrictions on noise and vibration levels in the areas surrounding our pachinko halls. These specify the acceptable noise levels for certain areas and times of the day. See "Applicable Laws and Regulations – D. Other Regulations on Pachinko Businesses – 8. Environmental Regulations" for further information on laws regulating noise and vibration. Each pachinko hall shall also have equipments necessary to keep illumination in the hall more than 10 lux.



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To ensure compliance with such laws and regulations, we have appointed a manager to supervise and monitor our compliance and also our internal standards regarding such matters, and we keep a record of any relevant incidents. Our Directors are of the view that the annual cost of compliance with applicable health, work safety, social and environmental laws, regulations and policies was not material during the Track Record Period and is also not expected to be material going forward.

During the Track Record Period and as at the Latest Practicable Date: (1) there had been no violation of the health, work safety, social and environmental laws, rules and regulations applicable to our operations; (2) all the required permits and environmental approvals for construction had been obtained; and (3) there had been no claim or penalty imposed upon our Group as a result of violation of health, work safety, social and environmental laws, rules and regulations. Our Japan Legal Adviser is of the opinion that our Group has complied with all applicable Japan health, work safety, social and environmental laws, rules and regulations during the Track Record Period and up to the Latest Practicable Date.

## PROPERTIES AND FACILITIES

### Overview of property interests

Our self-owned and leased property interests comprise a gross floor area of approximately 823,258 sq.m. in aggregate. Among these property interests, approximately 88,100 sq.m. of which are considered directly relevant to our operations as they are buildings housing our operational pachinko halls, supporting facilities and premises used for property activities (within the meanings of the Listing Rules) (the “Operational Premises”). The remaining approximately 735,158 sq.m. are non-operational and include land on which our Operational Premises are located and parking lots adjacent to our pachinko halls.

### Pachinko halls

Approximately 88.1% of our Operational Premises are used as pachinko halls. As at the Latest Practicable Date, we operated 55 pachinko halls, all of which were located in Northeast Honshu (本州島東北), Japan. We also have on-site offices and ancillary facilities located within the premises of our pachinko halls to ensure efficient and smooth operations.

### Supporting facilities

We also own the properties housing our headquarters and training facilities, both located in Koriyama City (郡山市) of Fukushima Prefecture (福島県). Our offices in Tokyo (東京都) and Hong Kong, as well as the premises housing our “LIZARRAN” restaurant are leased properties.

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### Property activities

Our property activities (within the meanings of the Listing Rules) include a hotel and an office building for lease to third party tenants, both located in Koriyama City (郡山市) of Fukushima Prefecture (福島県), as well as a three-storey building of residential apartments for lease to third party tenants located in Tokyo (東京都). All of them are operated on self-owned properties. See “Appendix III – Valuation Report on Selected Property Interests” for the full-text valuation report prepared by our Property Valuer on these properties.

Our Directors have confirmed that as at 30 September 2014, being the last day of the Track Record Period, no single property interest of ours that forms part of our non-property activities had a carrying amount of 15% or more of our total assets.

Further, our Directors have confirmed that as at the Latest Practicable Date, no single property interest of ours was material to our Group’s total assets as a whole, and none of our property interests was individually material to us in terms of turnover contribution or rental expenses.

### Self-owned properties

As at the Latest Practicable Date, approximately 55.4% of our Operational Premises were self-owned properties. The table below sets forth a summary of our self-owned Operational Premises:

Hall Numbers <sup>4</sup>	Pachinko halls		Approximate Gross Floor Area <sup>1 and 2</sup>
	Location	Usage	Total (sq.m.)
1	Sasakino, Fukushima-shi . . . . .	Pachinko hall	1,629
2	Toyano, Fukushima-shi . . . . .	Pachinko hall	1,664
3	Senouemachi, Fukushima-shi . . . . .	Pachinko hall	1,641
6	Asakamachi, Koriyama-shi . . . . .	Pachinko hall	1,579
8	Mukaigawaramachi, Koniya-shi . . . . .	Pachinko hall	1,929
9	Ekimae, Koniya-shi <sup>3</sup> . . . . .	Pachinko hall	3,273
10	Namiki, Koriyama-shi . . . . .	Pachinko hall	1,774
12	Otsukimachi, Koriyama-shi . . . . .	Pachinko hall	602
13	Zukei, Koriyama-shi . . . . .	Pachinko hall	1,450
15	Asakamachi, Koriyama-shi . . . . .	Pachinko hall	1,301
16	Emochi, Sukagawa-shi . . . . .	Pachinko hall	1,531
20	Taira, Iwaki-shi . . . . .	Pachinko hall	1,493

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Hall Numbers <sup>4</sup>	Pachinko halls		Approximate Gross Floor Area <sup>1 and 2</sup>
	Location	Usage	Total (sq.m.)
21	Tairashio, Iwaki-shi . . . . .	Pachinko hall	1,934
23	Banseicho, Yonezawa-shi . . . . .	Pachinko hall	835
24	Wakamiya, Yamagata-shi . . . . .	Pachinko hall	1,381
26	Minami-ku, Niigata-shi . . . . .	Pachinko hall	1,391
27	Kita-ku, Niigata-shi . . . . .	Pachinko hall	1,391
30	Odabayashi, Yuki-shi . . . . .	Pachinko hall	957
31	Higashikanesanacho, Hitachi-shi . . . . .	Pachinko hall	1,794
32	Ikkucho, Nasushiobara-shi . . . . .	Pachinko hall	1,454
33	Fukuicho, Ashikaga-shi . . . . .	Pachinko hall	1,625
35	Itahana, Annaka-shi . . . . .	Pachinko hall	1,657
36	Oizumimachi, Oura-gun . . . . .	Pachinko hall	1,768
40	Kamikawasaki, Hanyu-shi . . . . .	Pachinko hall	2,810
42	Nakano-ku, Tokyo . . . . .	Pachinko hall	887
45	Ota-ku, Tokyo . . . . .	Pachinko hall	479
53	Kurobeoka, Hiratsuka-shi . . . . .	Pachinko hall	1,675

**Total: 27**

### Supporting facilities

Hohaccho, Koriyama-shi . . . . .	Training facilities	1,460
Hohaccho, Koriyama-shi . . . . .	Headquarters	2,457

### Property activities (within the meanings of the Listing Rules)

Ekimae, Koriyama-shi . . . . .	Hotel and Ekimae hall <sup>3</sup>	3,273
Ekimae, Koriyama-shi . . . . .	Offices for lease	2,699
Oomorinishi, Tokyo . . . . .	Apartment units for lease	264

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Note:

- Includes Operational Premises only.
- The attributable interests of our Group in the properties listed above are 100%.
- We operate a hotel above our Ekimae hall in Koriyama City (郡山市) of Fukushima Prefecture (福島県). The said hotel and pachinko hall are located in the same building.
- The hall numbering follows the map of our pachinko halls set out in “– Pachinko and Pachislot Hall Operations – Geographical Focus in Northeast Honshu (本州島東北)” in this section above.

For details of the securities being secured to our self-owned Operational Premises, see “Financial Information – Indebtedness”.

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### Leased properties

As at the Latest Practicable Date, approximately 44.6% of our Operational Premises were leased properties, which have a lease term generally ranging from 3 to 20 years. The table below sets forth a summary of our leased Operational Premises:

Hall Numbers <sup>3</sup>	Location	Usage	Approximate Gross	
			Floor Area <sup>1 and 2</sup>	
			Total (sq.m.)	Expiry Date
4	Jotake, Nihonmatsu-shi. . . . .	Pachinko hall	1,523	February 2022
5	Motomiya, Motomiya-shi . . . . .	Pachinko hall	1,301	June 2030
7	Hiwadamachi, Koriyama-shi. . . . .	Pachinko hall	1,422	March 2017
11	Shima, Koriyama-shi . . . . .	Pachinko hall	959	March 2019
14	Minami, Koriyama-shi. . . . .	Pachinko hall	1,172	October 2021
18	Babano, Soma-shi . . . . .	Pachinko hall	1,389	February 2023
19	Haramachi-ku, Minamisoma-shi . . . . .	Pachinko hall	1,513	December 2029
22	Taihaku-ku, Sendai-shi. . . . .	Pachinko hall	2,161	August 2021
25	Higashi-ku, Niigata-shi. . . . .	Pachinko hall	1,393	April 2023
28	Tomado, Chikusei-shi . . . . .	Pachinko hall	1,398	June 2022
29	Edakawa, Hitachinaka-shi . . . . .	Pachinko hall	1,464	October 2021
34	Amagawaoshimamachi, Maebashi-shi . . . . .	Pachinko hall	1,932	November 2027
37	Atago, Kazo-shi . . . . .	Pachinko hall	1,839	July 2026
38	Fukai, Kitamoto-shi . . . . .	Pachinko hall	1,606	February 2025
39	Nakai, Konosu-shi . . . . .	Pachinko hall	2,055	March 2027
41	Nakano-ku, Tokyo . . . . .	Pachinko hall	852	Automatic renewal at a three-year interval
43	Nakano-ku, Tokyo . . . . .	Pachinko hall	385	Automatic renewal at a three-year interval
44	Nakano-ku, Tokyo . . . . .	Pachinko hall	628	June 2018
46	Ota-ku, Tokyo. . . . .	Pachinko hall	434	May 2015
47	Ota-ku, Tokyo. . . . .	Pachinko hall	362	July 2015
48	Tateno, Higashiyamato-shi. . . . .	Pachinko hall	1,951	April 2016
49	Kamikitadai, Higashiyamato-shi . . . . .	Pachinko hall	1,470	April 2019
50	Mizuhomachi, Nishitama-gun, Tokyo. . . . .	Pachinko hall	1,262	February 2020
51	Inadaira, Musashimurayama-shi, Tokyo . . . . .	Pachinko hall	1,465	January 2024

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Hall Numbers <sup>3</sup>	Location	Usage	Approximate Gross Floor Area <sup>1 and 2</sup>	
			Total (sq.m.)	Expiry Date
52	Ota-ku, Tokyo . . . . .	Pachinko hall	884	April 2022
54	Hongo, Ebina-shi . . . . .	Pachinko hall	2,103	August 2033
55	Shinkou, Iruma-shi . . . . .	Pachinko hall	2,467	November 2034
56	Arima Shibukawa-shi . . . . .	Pachinko hall	1,309	December 2034
<b>Total<sup>1</sup>: 28</b>				

### Others

Minato-ku, Tokyo . . . . .	Restaurant	308	July 2017
Minato-ku, Tokyo . . . . .	Office	243	Automatic renewal at a two-year interval
Central, Hong Kong . . . . .	Office	67	December 2017

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*Note:*

- Includes Operational Premises only and excludes a pachinko hall grossing 1,619 sq.m. which has been permanently closed since the Great East Japan Earthquake as it is located within the exclusion zones implemented by the Japanese government in March 2011. Both the land and building of that pachinko hall are leased properties expiring in 2027. See “— Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake” in this section above for details.
- The attributable interest of our Group in the above listed properties is 100%.
- The hall numbering follows the map of our pachinko halls set out in “— Pachinko and Pachislot Hall Operations — Geographical Focus in Northeast Honshu (本州島東北)” in this section above.

The two leased Operational Premises that will expire by 2015<sup>5</sup> accounted for, in aggregate, approximately, 1.8%, 1.7%, 1.5% and 1.6%, respectively, of our revenue for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014.

We own and/or rent the land on which our pachinko halls are located, and lease and/or have constructed the buildings that house our pachinko and pachislot hall operations. Under the Civil Code and the Leases Act and in accordance with the terms of our lease agreements, while the lessor owns the title of the land we lease, we own the title of the premises we constructed on such land. Our Japan Legal Adviser has confirmed that these arrangements of title ownership are in compliance with the Civil Code, the Leases Act and all applicable laws and regulations in Japan.

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<sup>5</sup> These are for the halls numbered 46 and 47 as indicated in the map in “Business — Pachinko and Pachislot Hall Operations — Geographical Focus in Northeast Honshu (本州島東北)”.

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We are generally required pursuant to the terms of our lease agreements to return the land to the lessor in its original condition as a vacant site upon expiry or termination of lease. Thus, if we do not renew all of our leases, we will be required to demolish the pachinko halls that we have constructed on the parcels of land we have leased as and when each such lease expires. Our Directors currently estimate that the maximum potential demolition costs for each pachinko hall premise shall be approximately ¥127.7 million excluding other costs. During the Track Record Period, we did not have any significant difficulty in securing location for our new pachinko halls, nor did we fail to renew any of our lease agreements for pachinko hall sites. See “Risk Factors — Risks Relating to our Business — We may not be able to renew leases or other contractual arrangements for the use of existing pachinko halls, or to obtain desirable sites for the expansion of our operations, on satisfactory terms or at all” for details.

The table below indicates how the properties housing our operational pachinko halls are held as at the Latest Practicable Date:

	Number of Pachinko Halls <sup>1</sup>				
	Self-owned Operational Premises			Leased Operational Premises	
	Owned building and partially owned (and partially leased) land			Leased building and partially owned (and partially leased) land	
	Owned building and owned land	Owned (and partially leased) land	Owned building and leased land	Leased building and leased land	Leased building and partially leased land
Pachinko halls. . . . .	6	13	8	27	1

*Note:*

- Includes our operational halls only and excludes a hall which has been permanently closed since the Great East Japan Earthquake as it is located within the exclusion zones implemented by the Japanese government in March 2011. Both the land and building of that pachinko hall are leased properties expiring in 2027. See “— Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake” in this section above for details.

The lease contacts for our pachinko halls operated on leased land consist of two types, namely (1) fixed term lease contract and (2) standard lease contract.

In a fixed term lease contract, the lessee must return the land as a vacant lot upon expiry or termination of the relevant lease contract. The lessee under a standard lease contract enjoys security of tenure because the contract may be automatically renewed unless the lessor has justifiable reasons for re-entry upon expiry of the lease contract. Our Directors currently intend to use our best endeavours to negotiate for the renewal of our fixed term contracts on commercially viable terms and conditions that are in the interests of our Company and Shareholders as a whole. We are in negotiation with the relevant landlords of the three pachinko halls with lease land components expiring by 2015 and our Directors believe that, based on the current negotiation status, it is highly likely that we will be able to continue occupying the Operational Premises and land components housing these three pachinko halls.

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The earliest expiration date of the lease contracts for 49 of our pachinko halls with leased land components is in 2015. The table below summarises the type of lease contracts for the 49 pachinko halls as at the Latest Practicable Date:

Year of expiry of land lease contract	Number of pachinko halls <sup>1</sup>			Total
	Fixed term lease (land components)	Fixed term leases (land and building components)	Standard lease	
By 2015 .....	—	—	3	3
2016-2020 .....	—	1	11	12
2021-2025 .....	4	4	12	20
2026-2030 .....	3	—	5	8
2031-2035 .....	1	1	2	4
Automatic renewal .....	—	—	2	2
Total .....	<u>8</u>	<u>6</u>	<u>35</u>	<u>49</u>

*Note:*

- Includes our operational halls only and excludes a hall which has been permanently closed since the Great East Japan Earthquake as it is located within the exclusion zones implemented by the Japanese government in March 2011. Both the land and building of that pachinko hall are leased properties expiring in 2027. See “— Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake” in this section above for details.

The three lease contracts with leased land components that will expire by 2015<sup>6</sup> accounted for, in aggregate, approximately 4.3%, 4.2%, 4.2% and 4.4% of our revenue for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively.

As at the Latest Practicable Date, save as disclosed in this Prospectus, none of our Operational Premises (i) was subject to any restriction on use; (ii) was subject to encumbrances, liens, pledges and mortgages; or (iii) involved any breach of law and regulation (including environmental regulation), title defect, investigation, notice or pending litigation, nor did we have any plan to (a) construct, renovate, improve or develop any Operational Premise; or (b) dispose of or change the use of any Operational Premise.

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<sup>6</sup> These are for the halls numbered 10, 46 and 47 as indicated in the map in “Business — Pachinko and Pachislot Hall Operations — Geographical Focus in Northeast Honshu (本州島東北).”

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### INTELLECTUAL PROPERTY

Our Group's brand name, particularly our traditional "NIRAKU" brands, are valuable assets for our Company and operations.

As at the Latest Practicable Date, our Group had 24 registered trademarks in Japan and ten of which are material to our pachinko and pachislot hall operations. These material trademarks are our "NIRAKU (ニラク)" brand, ,  and **NIRAKU** or variations of them, under which all of our Group's pachinko halls in Japan are operated. These material trademarks have been registered by our Group in Japan and are each valid for ten years from the date of registration. The material trademarks have commencement dates ranging from April 2003 to August 2012 and will expire between August 2018 and May 2024. These trademarks are of material importance to our business operations, financial position and prospects. As at the Latest Practicable Date, our Japan Legal Adviser has confirmed that we own and have valid and enforceable rights to use our intellectual property rights as set forth here.

We have also been granted exclusive use of the "LIZARRAN" trademark, a Spanish restaurant. See "— Other Business" in this section below for details.

During the Track Record Period, no material claims or disputes were brought against us in relation to any infringement of trademarks, patents or other intellectual property. Our Directors are also not aware of any use by any third party of our logo or brand and believe that there has been no infringement that would result in a significant potential impact to our business.

See "Appendix VI — Statutory and General Information — 2. Our material intellectual property rights" for details of intellectual property rights that are material to our business.

### INSURANCE

We believe that our insurance coverage is consistent with the industry standard and is adequate for our business operations. From time to time, we review and assess our risks and adjust our insurance coverage as appropriate.

We maintain fire insurance for our pachinko halls and operating properties from fire damage. We also maintain movable property insurance, which insures our movable property (such as cash in our halls) from theft and burglary, and public liability insurance for third party physical injuries and property damage, and labour and health insurance for our employees. Each policy contains certain customary exclusions. In addition, certain events such as nuclear events, labour strikes, acts of war or terrorism, and other disasters are excluded from coverage by these insurance policies. We do not carry business interruption insurance resulting from natural disasters such as droughts, floods, earthquakes or severe weather conditions, any suspension or cessation in the supply of utilities and other calamities. We plan to purchase similar policies for our future properties. However, our insurance coverage may not be adequate to cover all losses that may



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occur. See “Risk Factors — Risks Relating to Our Business — Our insurance coverage may not be adequate to cover all possible operational losses that we could suffer. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future”.

### OTHER BUSINESSES

Our primary business has always been our pachinko and pachislot hall operations. Our revenue from pachinko and pachislot hall operations constituted almost all of our total revenue, namely 97.6%, 97.5%, 97.5% and 97.6% of our total revenue during the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014. Other than our core business of pachinko and pachislot hall operations (including vending machine income), we also have two other businesses, namely our hotel operations and also our “LIZARRAN” restaurant.

#### 1. Hotel Operations

We have been operating a hotel called Koriyama City Hotel (郡山シティホテル), which is a business hotel with basic amenities, since 1979. It is situated in the centre of Koriyama City (郡山市), Fukushima Prefecture (福島県), being in front of the Koriyama railway station. It is a 11-storey hotel with a gross floor area of 2,944.38 sq m and has 84 guest rooms.

Our Property Valuer, DTZ Debenham Tie Leung Limited, an independent property valuer, has valued (among others) our hotel as at 31 January 2015 and is of the opinion that its value was ¥728 million, with the entire value attributable to us. See “Appendix III— Valuation Report on Selected Property Interests” for the full text of their letter, summary of valuation and valuation certificates.

Our revenue from our hotel operations has been relatively insignificant, namely nil, ¥84 million, ¥149 million and ¥80 million, representing only nil, 0.3%, 0.4% and 0.5% of our total revenue, for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. Revenue from our hotel operations was nil in the year ended 31 March 2012 because our hotel had been closed for renovation since the Great East Japan Earthquake and reopened in August 2012. For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our hotel’s average occupancy rate was nil, 70.3%, 79.9% and 82.2%, respectively. As our Group’s hotel operation is not our major business focus, we have no intention to expand (i.e. increasing the number of hotels) our hotel operation. For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our hotel’s net profit / (loss) before tax amounted to (¥138 million), (¥12 million), ¥1 million and ¥6 million, respectively. As our hotel is a budget hotel with limited facilities, our expected capital expenditures on the maintenance and refurbishment of the hotel shall not be significant.

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### 2. “LIZARRAN” Restaurant

On 16 December 2013, we (through our subsidiary, Niraku Corporation) and Comess Group De Restauración S.K. (“**Comess Group**”), an independent third party, entered into a franchise agreement, whereby Comess Group granted Niraku Corporation the exclusive rights to open a network of “LIZARRAN” restaurants in Japan. Comess Group is a reputable restaurant group that has over 10 years’ experience in operating and franchising multiple restaurant brands (such as “LIZARRAN”, “Cantina Mariachi”, “Pasta City”, “Rock & Ribs” and “China Boom”) and over 300 restaurant establishments across the world (especially in Europe, and also the Middle East, China and now Japan). The material terms of this franchise agreement are:

<b>Parties</b>	(1) Comess Group, as franchisor and legal owner of the “LIZARRAN” trademark (a Spanish restaurant); and  (2) Niraku Corporation, as franchisee
<b>Licence</b>	Comess Group grants Niraku Corporation the exclusive rights to open a network of “LIZARRAN” restaurants in Japan, which must always operate in accordance with the instructions of Comess Group. Such exclusivity even precludes Comess Group from opening any such restaurant in Japan
<b>Restaurant openings</b>	Niraku Corporation will open at least 20 restaurants by 2028, with at least one new restaurant per year
<b>Term</b>	20 years (renewable for an additional 20 years by Niraku Corporation upon six months’ written notice and Niraku Corporation’s compliance with this franchise agreement)
<b>Fees/Royalties</b>	Niraku Corporation shall pay to Comess Group: <ul style="list-style-type: none"><li>• initial licence fee - €250,000 (equivalent to approximately HK\$3.04 million)</li><li>• royalties - 2.25% of Niraku Corporation’s net sales, payable monthly</li></ul>

We entered into this franchise agreement in order to diversify our business and because our Directors viewed this as a sound business opportunity. A side benefit is also an added level of hospitality training for our employees, as we will periodically rotate selected employees to serve at our restaurants.

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As at the Latest Practicable Date, we had opened one restaurant on 15 October 2014 (thus, no revenue for our restaurant business was recorded during the Track Record Period) as our first and flagship “LIZARRAN” restaurant (with a seating capacity of 82) and is situated in Tokyo (東京都). In each of 2015, 2016 and 2017, we plan to open one new restaurant in Tokyo (東京都). The estimated costs of opening each new restaurant is approximately ¥40 million to ¥50 million.

For the six months ended 30 September 2014, pre-operating costs for setting up our restaurant (including costs for staff recruitment and rental) of ¥10 million were recorded. As a result, our Group’s “other business” recorded a loss of ¥4 million, taking into account our hotel operation’s net profit before tax of ¥6 million for the six months ended 30 September 2014.

The strategy of our restaurant business is to capture the taste of the younger generation (as we believe Spanish cuisine is particularly appealing to them as it is a relatively social cuisine that is served in a relatively casual and relaxing environment) by: (1) serving authentic Spanish cuisine at affordable prices (as opposed to other European cuisines); (2) providing attentive services (all restaurant staff will receive extensive training); (3) strategically placing our restaurants in locations with high customer traffic; and (4) learning from the proven track record of Lizzaran restaurant’s chain restaurant management experience (with a network of over 300 restaurants worldwide, including in Asia). We expect our restaurants will breakeven within approximately 12 months from opening. Further, due to the relatively low investment cost of our restaurant operation (as the opening cost of a restaurant amounts to approximately ¥40 to ¥50 million) and the fact that restaurant operation is more of a cashflow business and does not require much working capital (i.e. debtor turnover days is relatively short), we do not expect any significant risk to arise from our restaurant operation.

### LEGAL PROCEEDINGS AND COMPLIANCE

From time to time, we have been (and may in the future occasionally be) involved in routine legal proceedings or disputes in the ordinary course of our business that are common for our industry, which are primarily disputes with our customers, suppliers and employees regarding minor employment disputes, customer complaints and contract disputes with our suppliers. During the Track Record Period, we were not involved in any legal proceedings. We are also subject to regular investigation by the relevant government regulatory bodies (including police personnel) regarding our licenses and operations. We have not incurred significant legal costs and expenses in connection with these legal proceedings and investigations.

Under the Amusement Business Law, we, as a pachinko hall operator, must, prior to establishing each pachinko hall, obtain an operating licence from the relevant Prefectural Public Safety Commission\* (都道府県公安委員会). Once granted, the operating licence will remain effective unless and until it is cancelled by the Prefectural Public Safety Commission\* (都道府県公安委員会) pursuant to the Amusement Business Law. As at the Latest Practicable Date, we owned 56 halls and had obtained and directly hold a licence (through Niraku Corporation) for each of these halls, each of which is currently valid.

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Our Japan Legal Adviser has confirmed that, during the Track Record Period and up to the Latest Practicable Date: (1) we have not been the subject of any administrative proceedings (including administrative dispositions) and have not been imposed any fines or penalties (including suspensions or revocations of operating licences) by regulatory authorities; (2) none of our Directors or senior management has been, or are, the subject of any regulatory inquiry or investigation in Japan; (3) we have also been, and currently are, in compliance in all material respects with all applicable laws, rules and regulations; (4) we have obtained and currently maintain all necessary approvals, certificates, permits or licenses that are material to our operations; (5) our Company was in compliance with the applicable laws and regulations in any and all conditions imposed on it under licences granted by the relevant Prefectural Public Safety Commission\* (都道府県公安委員会) in all material respects; (6) the Prefectural Public Safety Commission\* (都道府県公安委員会) has not imposed any non-standard conditions on or suspended or revoked any of the licenses held by our Group; (7) none of our pachinko hall operations have been suspended due to violations of the Amusement Business Law or other applicable laws and regulations; and (8) we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material adverse effect on our business, financial condition or results of operations.

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## INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

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We employ internal controls and procedures designed to help ensure that our pachinko and pachislot hall operations are conducted in a professional manner and in compliance with the Amusement Business Law, as enforced by the National Public Safety Commission\* (國家公安委員会), and all applicable laws and regulations in Japan. Further, even though there are currently no specific obligations imposed on pachinko hall operators under the AML laws of Japan, we have voluntarily established various policies and procedures designed to identify and mitigate money-laundering activities in our pachinko and pachislot hall operations and avoid dealing in the proceeds of any indictable offence. Our internal control measures enable us to detect irregularities and unusual activities or trends in the transactions that take place in our pachinko halls which, if detected, are reported to our Directors and senior management for investigation, remediation and, if necessary, reporting to the relevant authorities in Japan. In addition, our hall staff are trained to detect irregular customer activities, particularly those involving large amounts of cash. Money-laundering is difficult to carry out through pachinko operations, in general, because (1) pachinko ball and pachislot token dispensers are only able to release a maximum of approximately 750 pachinko balls or 600 pachislot tokens per minute due to inherent mechanical limitations; (2) the value of balls shot into the playing field is limited by regulations to ¥400 per minute; and (3) payout ratios are also limited by regulations. Furthermore, as with all pachinko hall operators in Japan, we are subject to on-site supervision by the Prefectural Public Safety Commission\* (都道府県公安委員会). See “Applicable Laws and Regulations” for more information regarding the regulations to which we are subject.

### INTERNAL CONTROLS RELATING TO PACHINKO AND PACHISLOT HALL OPERATIONS

#### Our Internal Control Framework

Our pachinko and pachislot hall operations are subject to risks of loss resulting from employee or customer 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. We have implemented anti-cheating and anti-counterfeiting surveillance systems designed to detect irregularities incurred during our daily operations, which includes a surveillance system and an internal audit team which is responsible for hall operational audits, as described below. Prevention and investigation of fraud and cheating in our pachinko halls are primarily carried out by our hall operations staff with the cooperation of our internal audit team. To ensure the integrity of operations and compliance with operational policies and procedures, our internal audit team operates independently from our hall operations units.

#### Fraud Prevention and Detection Measures

We also have in place measures in our pachinko and pachislot hall operations to detect potential fraud, cheating or counterfeiting activities. For instance, our pachinko and pachislot machines have mechanisms detect and reject any counterfeit bank notes inserted. Each of our

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## INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

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pachislot tokens feature a “NIRAKU” stamp. To ensure that no altered or counterfeited pachinko balls or pachislot tokens are brought into or taken out of our pachinko halls, the entrances of our pachinko halls are monitored by our hall operations staff supported by surveillance cameras.

### **Hall Management System**

Our 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. At the end of each day, our assistant hall managers in each hall reconcile the opening balance of pachinko 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**

The operations of our pachinko and pachislot machines are monitored by surveillance cameras and our hall computers. Our hall operations staff who patrol the hall and monitor the footage of surveillance cameras as well as our hall computers are able to detect and prevent any attempts to tamper with the pin angle maintenance adjustments, payout setting adjustments or otherwise illegally manipulate the machines. Our hall operations staff are responsible for daily tasks relating to machine maintenance, such as cleaning. However, our hall operations 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. However, hall managers are authorised to check and make daily adjustments to the pachinko machines in order to ensure continued compliance with relevant regulations.

### **Hall Operations Staff and Internal Audit Team**

Our internal audit team has an average of more than 18 years of work experience in the pachinko industry and is familiar with fraud detection mechanisms. Our hall operations staff are required to regularly patrol the hall to monitor our 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 our hall managers.

### **Cooperation with Police**

We work closely with officers of the prefectural police agency. If a member of our staff identifies suspicious activity which may constitute a crime, we will report such activity to the local police for further investigation. Our pachinko halls also cooperate with the 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. Our pachinko halls exchange surveillance photos of such persons to ensure that such persons are not allowed entry into our pachinko halls.

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### Whistleblowing Policy

Our officers, employees and their relatives could report irregularities or suspected fraud to management verbally through a “whistleblowing” telephone hotline or in writing. Our whistleblowing policy further requires such reporting when any officer or employee becomes aware of any act that falls within the range reportable acts specified in our policy. Our internal audit team who reports directly to our Audit Committee is responsible for handling all reports received and conducting the appropriate enquiries. Upon receiving of such result of reports, our internal audit team will consolidate and escalate these cases to our Audit Committee which determines if further investigation is necessary, in which case our internal audit team must then open an investigation file and notify the whistleblower of the results of the investigation and corrective measures taken or, if the investigation is discontinued, the reason for the discontinuation. A written report must be provided to our Audit Committee, which is responsible for reporting to our Board of Directors. The identities of any whistleblowers are kept confidential and our policy protects any whistleblowers from retaliatory action by our Company. Our Board of Directors is, if required under the relevant laws and regulations in Japan, required to report any findings of irregularities and defrauds to the relevant authorities in Japan.

### INTERNAL CONTROLS RELATING TO CASH AND G-PRIZES

#### Cash and G-prize Handling Measures

We employ stringent internal control measures with respect to the handling of cash and G-prizes in our pachinko halls. Such measures include the followings:

- 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 our 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 our pachinko halls which is only accessible by our 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(s) and the key of the hall counter drawer of each of our pachinko halls are kept by our hall managers, assistant hall managers and designated staff in charge of cash management;
- Our 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 hall counter drawers 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;

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- Based on the inventory record, our 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 our prize management system, which is used for prize ordering and inventory management. Our hall managers or assistant hall managers are authorised to approve G-prize purchase orders in our prize management system;
- G-prizes are delivered in the presence of our 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 the inventory records in our prize management system are updated accordingly, of which our headquarters have real-time access. The payment for such deliveries are also handled by these authorised staff members;
- The staff in charge of cash management and our assistant hall managers carry out manual cash count which is stored in our sales reporting system and sign off our daily hall reports at the close of each business day, subject to the ultimate approval of each hall managers. Our headquarters have real-time access to our sales reporting system as well as access and review authority to daily hall reports of each pachinko hall; and
- Our headquarters perform a daily review of sales record and the amount of cash collected and reported by each hall in our 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**

We have established written guidelines on the maximum amount of cash to be kept at each pachinko hall for daily operations, which is ¥35 million, which includes changes, pay-ins and money for buying G-prize. We also contract with a security transportation company, an independent third party, for the collection of cash in excess of the amount necessary for daily operations as prescribed in the guidelines. Such excess cash is deposited into a secure safe that is located in each of our pachinko halls, which is only accessible for collection by our transportation company. Upon deposit into the safe, a deposit slip is automatically generated, and risks of loss are transferred to our transportation company. Our transportation company collects cash from our safes on a regular basis ranging from daily to weekly, which may vary depending on the number of machines in the relevant hall, transports it to the bank and deposit the cash into our account. We reconcile the amount collected by our transportation company against the amount credited to our bank accounts on a monthly basis.



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### Financial Statement Reconciliation

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

### Prize Management System

Our prize management system keeps up-to-date inventories of our various prizes, including G-prizes. This enables our 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 are generated and reviewed by our 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 our headquarters to identify any abnormalities.

## INTERNAL CONTROLS RELATING TO INFORMATION TECHNOLOGY AND COMPUTER SYSTEMS

### Internal controls related to Information Technology and Computer Systems

Our information technology department supports several systems which are only accessible by authorised employees in order to ensure smooth operations. To ensure the security of our information technology systems, we have implemented certain measures, such as:

- access rights to the various systems are assigned to employees based on their designated roles and responsibilities;
- our major systems, including our prize management system, hall computers, sales reporting system, accounting system and human resources and payroll system are password-protected;
- our computing facilities in Tokyo (東京都) and Koriyama City (郡山市) are accessible only by authorised personnel; and
- To protect our information, we have a backup plan in place for critical systems and data. Full backups are performed on a daily basis.

## INTERNAL CONTROLS ON MONEY LAUNDERING

We believe that, money laundering risks associated with our pachinko and pachislot hall operations are inherently low, due to the stringent regulations and machine limitations pertaining to the number of pachinko balls or pachislot tokens that can be played as well as won at our

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## INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

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pachinko and pachislot machines. Even though there are currently no specific obligations imposed on pachinko hall operators under the AML laws of Japan, we have voluntarily established various policies and procedures designed to identify and mitigate money laundering activities in our pachinko and pachislot hall operations and avoid dealing in the proceeds of any indictable offence. Such policies and procedures have been designed, implemented and are operating with reference to the guidance paper titled International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation issued by the Financial Action Task Force in 2012 and the Amusement Business Law. In addition, the pachinko industry is regulated by the Amusement Business Law which requires the independence of the parties involved in the Three Party System being us, our G-prize wholesalers and the G-prize buyers engaged by them.

### **Our AML Governance**

Our Board of Directors is responsible for (among others) overseeing the overall management of compliance risks, including the review and approval of AML measures as well as remediation of any issues that arise.

Our Audit Committee is responsible for (among others) reviewing any internal control issues highlighted by our internal audit department and reporting such findings to our Board of Directors on a regular basis to highlight any deficiencies in our AML measures and internal control systems.

Our senior management is responsible for ensuring that there is a robust AML framework in place that is commensurate with any risks present in the pachinko industry. Furthermore, they also ensure that such a framework is operating effectively to facilitate the identification and mitigation of money laundering risks. Our AML framework covers systems, controls, policies and procedures across all key areas relevant to our operations. Our framework includes clear lines of escalation, transparent and accurate reporting and formalised risk management at both the entity and business unit level. This helps us make informed decisions as to whether pachinko hall transactions and customer relationships exceed our acceptable risk levels.

Our Risk Management Committee consists of 12 members and is headed by Mr. Akinori OHISHI (大石明德), an Executive Officer. Our Risk Management Committee is responsible for, among others, identifying, assessing and mitigating the risks faced by our business, which include those pertaining to money laundering and compliance with the Three Party System. Our Risk Management Committee periodically reviews these risks and the results of our internal audit department's testing and report their findings to our Audit Committee.

Our internal audit department is required to ensure adequate supervision over key aspects relating to the prevention and detection of money laundering with respect to our operations. This includes: (1) an inspection of each pachinko hall at least once every two months; (2) periodic reviews of our compliance framework and effectiveness of our AML measures; (3) verification and testing of our compliance with AML measures; and (4) reporting any findings to our Audit Committee.

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## INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

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See “Directors and Senior Management” for further details on the duties and responsibilities of our Board of Directors, Audit Committee and Risk Management Committee and for information on the background and experience of Mr. Akinori OHISHI (大石明德).

### Our AML Operational Controls

We have implemented the following controls to help detect and mitigate money laundering risks in our pachinko halls:

- appropriate due diligence procedures are conducted (including but not limited to background checks with respect to criminal records, employment history and financial information) and documented on our directors, as well as senior management, and area and hall managers of the our pachinko halls to among other things, identify and avoid connections to anti-social forces and ensure high standards of integrity. Such procedures 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. In addition, annual background checks are conducted on our G-prize wholesalers and the G-prize buyers engaged by them, including their directors and shareholders, in order to identify and avoid any connections with anti-social forces. Such procedures 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;
- written representations are obtained on a periodic basis from the G-prize wholesalers confirming (among others): (i) their independence from us; (ii) their independence from the G-prize buyers with whom they conduct business; (iii) they and their representatives, statutory auditors, executive officer, shareholders and directors and also the G-prize buyers with which they conduct business with do not have any connections with anti-social forces, or are, or will be involved in any actions or activities using, or jointly associate with, any anti-social force; (iv) a complete and accurate list of all G-prize buyers engaged by them who have G-prize buying shops near our halls, and the shareholder(s) or (ultimate owner(s)) of such G-prize buyers; (v) they undertake to conduct their own regular background checks against any G-prize buyers engaged by them in order to monitor any potential independence issues between them, and if there are any such issues, to inform us and resolve them immediately to ensure compliance with the Three Party System; and (vi) they undertake to report to us in a timely manner any change in their shareholding structure and composition of their board of directors, or if they become aware of any change in the same of the G-prize buyers engaged by them or other matters that may affect their own or such G-prize buyers’ independence within the Three Party System;
- written representations are obtained (through the relevant G-prize wholesaler) on a periodic basis from G-prize buyers confirming (among others): (i) their independence from the us; (ii) their independence from the G-prize wholesalers engaged by us; (iii) they and their representatives, directors, statutory auditors, executive officers or shareholders do not have any connections with anti-social forces, or are, or will be

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involved in any actions or activities using, or jointly associate with, any anti-social force; (iv) they are not aware of any of our G-prize wholesalers having connections with anti-social forces, or are, or will be involved in any actions or activities using, or jointly associate with, any anti-social force; (v) they have undertaken to the G-prize wholesaler that engaged them that they shall report to such G-prize wholesaler in a timely manner any change in their shareholding structure or board of directors or any other matters that may affect their independence within the Three Party System; and (vi) G-prizes are only paid for using cash and not any other form of payment such as bank remittance or cheques;

- external reputable corporate data research agencies are 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;
- periodic transfer of area managers and pachinko hall managers are conducted in order to prevent development of illicit relationships, such as those involving bribery. Our personnel development department shall have control over personnel matters;
- we reinforce monitoring of suspicious activities of customers and periodic evaluation. Efforts shall be made to ensure the early detection and reporting of persons who intend to gain profit illicitly by conducting thorough checks on suspicious activities;
- there is continuous monitoring of the automated systems in place in our pachinko halls, including but not limited to our prize management system, information technology system and hall computers, as well as analysis of financial and operating data, to monitor and detect unusual fluctuations that may indicate suspicious activity;
- there is appropriate guidance in place to ensure the timeliness, appropriateness and quality of both internal reporting to our headquarters and external disclosure to the relevant authorities in Japan;
- in the event where suspicious activities are discovered upon conducting an exhaustive check of suspicious activities relating to anti-social forces and money laundering, our staff in charge of compliance will be promptly alerted, in accordance with our emergency response flow. Our staff in charge of compliance shall share such information with our sales department and the responsible Director, and implement appropriate responses when there is suspicion of money laundering;
- early detection of and response to abnormal values in our systems is also conducted. In particular, any act of exchanging pachinko balls or pachislot tokens for prizes without playing shall be investigated. Our hall staff perform regular monitoring of customers during operation hours to identify (among others) customers exchanging prizes without playing. Further, at the end of each day, our hall managers compare the ratio of the number of balls played to the number of balls rented at the pachinko hall, with historical figures. If abnormal values are detected, our hall manager will instruct

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hall staff to review surveillance camera footage of the day to identify any customers who exchanged prizes without playing. Hall staff will also pay special attention to customers on the next day to identify such suspicious activity. If the person engaged in such activity does not cease the relevant activity after being asked to do so, such act shall be immediately reported to the police. We may request such person to immediately leave the premises and refuse the exchange of rent balls earned without playing;

- data checks are also performed on sales per machine and other business data every two hours during business hours to discover any renting of balls or tokens for purposes other than entertainment;
- moreover, at the end of each day, each hall must aggregate the number of pachinko balls and pachislot tokens rent to customers, used in play, collected or exchanged with prizes and check for any abnormalities. Any ball which was not played but exchanged into prizes will also be detected and the hall operations staff will need to report such instances to our headquarters. This aggregation serves as an aid in detecting abnormal payout status of prizes;
- employee education for the prevention of money laundering shall be conducted in compliance with our management manual, and education on anti-money laundering guidelines and other supplementary and updated information shall be conveyed through various training programs. This will help ensure that there is sufficient awareness from our staff of money laundering activities and risks;
- we record customer information in relation to, and report to our headquarters instances of, all transactions in which pachinko balls or pachislot tokens totalling ¥500,000 or more are exchanged for prizes (per transaction). When a customer seeks to redeem more than 100 G-prizes of large denomination, our hall managers or staff of a higher rank will (i) request for identification document; (ii) record the name and address of the relevant customers and the circumstances of the redeem request; and (iii) if there is any suspicious matter, track the relevant customer through his/her play history and the surveillance camera footage of the relevant customer;
- mechanical limitations, under which pachinko ball and pachislot token dispensers are only able to release a maximum of approximately 750 pachinko balls or 600 pachislot tokens per minute;
- specifications of the pachinko machines as regulated by the Amusement Business Law, the Enforcement Ordinance and the enforcement regulations prescribed under the Amusement Business Law, which limit the possible payouts to (among others): (1) for pachinko machines, it cannot release more than twice, or keep more than half, the number of pachinko balls played in a ten-hour period; and (2) for pachislot machines, its payouts must be between 0.55 to 1.2 times the number of tokens played over 17,500 continuous plays.

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- our Board of Directors is required to report any actual or potential money laundering activity that has come into their attention through any internal communication channels or reporting mechanism described in this section to the relevant authorities in Japan.

In particular, as a result of the machine limitations set out above (some of which are required under Japan laws and regulations), money laundering through pachinko and pachislot hall operations is difficult, especially as a lengthy period of time would be required to convert sizable sums of money into balls or tokens, and unusual activity in connection with play or failure to play will be observed and reported by our staff. See “Applicable Laws and Regulations” for details on the Japan laws and regulations relating to pachinko and pachislot hall operations and machines.

### PACHINKO TRUSTY BOARD

We are one of the members of the Pachinko Trusty-Board\* (一般社団法人パチンコ・トラスティ・ボード) (“PTB”), which is an organisation comprised of pachinko hall operators as well as third party professionals, such as lawyers, accountants and experts in business and corporate governance. The PTB’s Monitor Committee of third party professional members investigates and evaluates corporate governance and compliance of pachinko hall operators and provides suggested standards regarding management and operation of pachinko halls. We hope that our involvement with the PTB will raise corporate governance standards and industry standards for the operation of pachinko halls in order to bolster a positive image of pachinko in the community.

Through the work of its various committees of third party professionals and experts, the PTB has developed a set of pachinko hall accounting standards which is based on generally accepted corporate accounting practices in Japan while taking into consideration the environment and characteristics of pachinko and pachislot hall operations. These standards propose methods for the treatment of pachinko ball deposits and IC cards, costs of pachinko operations, recording of sales and other items unique to accounting in pachinko and pachislot hall operations. PTB also has a set of evaluation standards covering governance, internal controls, legal compliance, labour and employee and internal audit issues. PTB rates its member companies based on these evaluation standards and gives letter ratings which may be published upon request in order to encourage and improve transparency across the industry. Our own internal controls measures take into account concerns raised in the findings and suggested standards of the PTB’s monitor committee.

## FINANCIAL INFORMATION

*You should read the following discussion and analysis of our financial condition and results of operations together with the financial information as at and for each of the three years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014 and the accompanying notes included in the accountant's report set out in Appendix I to this Prospectus. The financial information in the accountant's report has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. Potential investors should read the accountant's report and not merely rely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements. For additional information regarding these risks and uncertainties, see "Risk Factors".*

### OVERVIEW

We operate pachinko halls in Japan where customers can play pachinko and pachislot, which are recreational arcade games characterised by an element of chance. We were the fourth largest pachinko hall operator in Japan in 2013 (based on gross pay-ins), according to EBI. Our headquarters are located in Fukushima Prefecture (福島県). Ever since we opened our first pachinko hall in 1950, all our operations have been focused in Northeast Honshu (本州島東北), Japan, covering ten prefectures that have a total population of approximately 47.4 million (representing 37.7% of the total population in Japan) as at 31 December 2013, and accounted for 38.6% of real GDP in Japan for the year ended 31 December 2013, according to EBI. Our halls can be categorised into suburban halls and urban halls. Suburban halls are our primary focus and are typically located in suburban areas and require car access, while our urban halls are typically located in urban areas and within walking distance of a train station. As at the Latest Practicable Date, we operated 55 halls, consisting of 46 suburban halls and 9 urban halls.

The number of our pachinko halls grew during the Track Record Period. The table below shows the number of our halls as at the indicated dates:

	As at 31 March			As at 30 September			As at the Latest Practicable Date			
	2012	2013	2014	2013	2014					
(number of halls, except for percentages)										
	%	%	%	%	%	%	%			
Suburban . . . . .	42	84.0	43	82.7	44	83.0	44	83.0	46	83.6
Urban . . . . .	8	16.0	9	17.3	9	17.0	9	17.0	9	16.4
<b>Total . . . . .</b>	<b>50</b>	<b>100.0</b>	<b>52</b>	<b>100.0</b>	<b>53</b>	<b>100.0</b>	<b>53</b>	<b>100.0</b>	<b>55</b>	<b>100.0</b>

For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, we generated total revenue of ¥30,352 million, ¥32,751 million, ¥33,847 million and ¥15,572 million and our profit attributable to shareholders of our Company amounted to ¥3,329 million, ¥3,765 million, ¥3,698 million and ¥937 million, respectively.

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## FINANCIAL INFORMATION

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### FINANCIAL AND OPERATIONAL METRICS OF OUR BUSINESS

The following are the financial and operational metrics that are key to understanding our results of operations:

#### Financial metrics

**Gross pay-ins**

amount received from customers for rental pachinko balls and pachislot tokens

*It is primarily affected by the level of customer spending in our halls which is in turn largely affected by: (1) G-prize markups; (2) payout ratios; (3) number, types and mixes of machines; (4) number and types of halls; (5) number and playing time of customers; (6) competitors' behaviour and the general trend of the pachinko industry; and (7) macroeconomic factors (such as tax and inflation).*

**Gross payouts**

aggregate cost of G-prizes and general prizes exchanged by customers<sup>1</sup>

*It is to a large extent affected by G-prize mark-ups and payout ratios of our machines.*

**Revenue from pachinko and pachislot business**

gross pay-ins less gross payouts

*In substance, such revenue can be considered as comprising two components: (1) the revenue derived from balls or tokens lost to the machines during game play by customers; for example: assuming the payout ratio is 90%, when the customer has finished putting 100 ¥1 balls into play, theoretically, he should win back 90 balls and lose 10 balls to the operator, who would have recorded a revenue of ¥10 from such customer; and (2) the revenue derived from the mark-up imposed on prizes redeemed by customers; for example, if a 10% mark-up is imposed on G-prize redemption, a player needs to use 1,100 ¥1 balls to exchange a G-prize with a cost of ¥1,000 at which the operator purchases such G-prize from the G-prize wholesaler. In this case, the operator makes ¥100 revenue through prize redemption.*

**Revenue from pachinko and pachislot hall operations**

revenue from pachinko and pachislot business, together with the revenue from vending machines

**Revenue margin**

gross pay-ins less gross payouts, divided by gross pay-ins, representing the portion of gross pay-ins that we receive as revenue, namely through customers playing our machines and our mark-ups on prize redemption

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Note:

<sup>1</sup> The amount of gross payouts in the consolidated financial information is subtracted from the opening balance of unutilised balls and tokens brought forward and added with the closing balance of unutilised balls and tokens at the period end.



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### Operational metrics

#### **G-prize mark-up**

difference between the value of the number of balls or tokens required to collect a G-prize and the cost of the G-prize

*G-prizes constitute virtually all (around 99% during the Track Record Period) of the value of all prizes exchanged by our customers. As such, G-prize mark-ups is one of the more significant factors that affect the profitability of our business. A higher G-prize mark-up means a higher revenue margin because we are charging more on prize redemption from our customers. However, the ultimate effect on revenue depends on customer sensitivity towards prize mark-ups, competitors' behavior and macroeconomic factors (such as tax and inflation), as imposing a prize mark-up may drive customers to play at competitors' halls (with lower or even no mark-up) or even to not play pachinko or pachislot at all, which will mean decreased gross pay-ins and revenue.*

#### **Payout ratio (of each machine)**

total number of balls or tokens won divided by the total number of balls or tokens played, representing the average probability of winning balls or tokens when playing our machines

*Payout ratios must fall within the legally permissible range at all times. See "Applicable Laws and Regulations — D. Other Regulations on Pachinko Businesses — 2. Pachinko and Pachislot Machine Regulations". Our machines generally have payout ratios that are less than 1.00, meaning players, on average, win less balls or tokens than that they put into play. A higher payout ratios means a lower revenue margin because customers are on probability winning more from us. However, the ultimate effect on revenue is uncertain. On the one hand, customers are winning more, which should mean an increase in gross payouts and a decrease in revenue. On the other hand, customers are more willing to play at our halls and for a longer time per visit, which could result in an increase in gross pay-ins and revenue. Therefore, the net effect on revenue is dependent on the respective magnitude of changes on gross pay-ins and gross payouts as a result of the change in payout ratio.*

#### **Jackpot probability (of each machine)**

probability of triggering the jackpot mode, during which a relatively large number of balls and tokens may be won

*A lower jackpot probability machine will pay out more balls or tokens for each jackpot than a higher jackpot probability machine. Customers can choose to play the type of machine according to their own preference. Therefore, an operator needs to adjust the machine mix accordingly to suit customer preferences in order to capture more gross pay-ins from the playing population.*

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**Machine utilisation (of each machine)**

the average number of balls or tokens played per day, divided by the maximum number of balls or tokens allowed to be played under the machine settings per day. This can provide information to the management as to the popularity of machines. A higher machine utilisation should generally bring about an increase in gross pay-ins and revenue.

*The maximum number of balls or tokens allowed to be played under the machine settings per day is defined as the maximum number of balls or tokens allowed to be played under the machine settings per hour (i.e. 6,000 balls or 2,634 tokens) multiplied by the number of operating hours per day (i.e. 13.5 hours).*

The table below shows the key financial and operational metrics of our business during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	<b>Revenue (¥, in millions)</b> . . . . .	30,352	32,751	33,847	16,429
<b>Gross pay-ins (¥, in millions)</b> . .	224,968	242,217	236,449	120,674	90,989
<b>Gross payouts (¥, in millions)</b> .	195,340	210,298	203,455	104,682	75,798
<b>Revenue margin (%)</b> . . . . .	13.2	13.2	14.0	13.3	16.7
<b>G-Prize mark-up (%)</b> . . . . .	—	—	—	—	4-20%
<b>Machine utilisation (%)</b>					
Overall for pachinko . . . . .	37.3	34.9	32.2	34.5	27.5
Overall for pachislot . . . . .	31.0	29.3	28.4	29.2	22.8

### Our Business Objective

We always strive to maximise our revenue. A lower payout ratio and a higher prize mark-up will raise our revenue margin. However, as mentioned above, the potential impact on gross pay-ins through movements in payout ratios and G prize mark-ups is always contingent upon a range of factors, such as competitor behaviour and customer sensitivity. Therefore, through our management's knowledge of, experience in, and judgment over (i) the above metrics and their inter-relationship, (ii) competitors' behaviour and (iii) players' sensitivity to changes in gaming experience as a result of movements in such metrics, we aim to strike an optimal balance between gross pay-ins and revenue margin in order to maximise our revenue.

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### **Basis of Presentation**

Immediately prior to and after the Reorganisation, the business of our Group was held by the Controlling Shareholders. Our business was mainly conducted through Niraku Corporation, Nexia and Merrist which are the operating entities of our Group. Pursuant to the Reorganisation, our business was transferred to and held by our Company. Our Company was not been involved in any other business prior to the Reorganisation and did not meet the definition of a business. The transaction undertaken for the Reorganisation represents reorganisation of our business with no change in management of such business and the ultimate owners of our business remain the same. Accordingly, the consolidated financial information of the companies now comprising our Group is prepared in accordance with IFRS 10 “Consolidated Financial Statements” issued by the International Accounting Standard Board, using the carrying values of our business under the Controlling Shareholders for all periods presented.

For companies acquired during each of the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, they are included in the Financial Information of the Group from the date of the acquisition.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies now comprising our Group are eliminated on consolidation.

### **SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS**

Our results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

#### **Market consolidation**

As set out in “Industry Overview”, according to EBI, gross pay-ins of the pachinko industry has been decreasing since the early 2000’s, due in part to the introduction of legislation reducing jackpot sizes and in part to the competition from other forms of entertainment options available to our target customers. From 2009 to 2013, the industry gross pay-ins decreased at a compound rate of 2.8%. See “— Competition from other forms of entertainment” in this section below. As a result, the pachinko industry is expected to experience a further decline from 2014 to 2018 with total gross pay-ins gradually declining from approximately ¥17.3 trillion in 2014 to approximately ¥16.1 trillion in 2018. Nevertheless, the shrinkage of the pachinko industry presents an opportunity to larger hall operators (such as ourselves) to take up more market share in the industry. Small hall operators have been and are likely to continue to be squeezed out of the industry. Large pachinko operators have greater financial and other resources and those who enjoy economies of scales, including operational cost efficiencies and priorities in procuring new machines from machine manufacturers, are more likely to benefit from absorbing the freed up market share. The opportunities for us from such consolidation is compounded by the high fragmentation of the industry and the fact that there are very few hall operators that are as large

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as us. Approximately 95.8% pachinko operators are small hall operators with less than 10 halls as at 31 December 2013, according to EBI. However, if we are unable to capture the market in time and maintain our existing market share in the market, our results of operations may be adversely affected.

### **The Japanese Economy**

We conduct all of our operations in Japan and in each of the financial years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014 derived all of our revenue from the domestic Japanese market. Customers' spending on pachinko forms part of their disposable income and the level of personal disposable income is generally influenced by the changes in GDP. Therefore, customers' spending in the pachinko industry as a whole is in turn impacted by the changes in Japan's GDP. The meagre growth in GDP in Japan for the past decade and the recent recession as represented by the contraction of Japan's GDP in the first two quarters in 2014, as well as the recent consumption tax hike, from 5% to 8%, in April 2014, led to a reduction in overall spending by consumers in Japan. If the Japan economy does not stage positive growth in the coming years, the pachinko players' spending and our results of operation may be adversely affected.

### **Our operations in the ten prefectures in Japan**

As at the Latest Practicable Date, our Group operated pachinko halls in ten prefectures of Northeast Honshu (本州島東北), Japan, namely: (1) in the Tōhoku Region (東北地方): Fukushima Prefecture (福島県), Miyagi Prefecture (宮城県) and Yamagata Prefecture (山形県); (2) in the Kantō Region (関東地方): Tokyo (東京都), Ibaraki Prefecture (茨城県), Gunma Prefecture (群馬県), Kanagawa Prefecture (神奈川県), Tochigi Prefecture (栃木県) and Saitama Prefecture (埼玉県); and (3) in the Chūbu Region (中部地方): Niigata Prefecture (新潟県). These ten prefectures had a total population of 47.4 million as at 31 December 2013 and real GDP of ¥202.9 trillion in 2013, representing 37.7% and 38.6% of the total population as at 31 December 2013 and real GDP of Japan in 2013, respectively. From 2014 to 2018, for these ten prefectures, it is forecasted that its population will remain stable and its total real GDP will increase slightly, while for the whole of Japan, it is forecasted that its population will decrease slightly while its real GDP will increase slightly. The real GDP of these ten prefectures is forecasted to increase by CAGR of 1.5% from 2014 to 2018 while that of the entire Japan is forecasted to increase by CAGR of only 0.9% in the same period. Such stable population and growth in real GDP in these ten prefectures are likely to provide us with a favourable environment for future expansion.

In particular, Fukushima Prefecture (福島県) is our most important strategic location, in which our headquarters, one hotel and 20 of our halls (as at the Latest Practicable Date) are located and with the highest number of our halls and machines. Our halls in Fukushima Prefecture (福島県) accounted for 40.1%, 40.7%, 40.5% and 42.7% of our total revenue during the Track Record Period, respectively. In March 2011, the Great East Japan Earthquake initially forced the temporary closure of our halls in Fukushima. That incident, however, did not cause much negative impact on our hall business. See "Business — Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake" for details. The Directors have observed that, after the earthquake, the general public was more willing to spend more time

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in pachinko halls to experience the sense of community. Further, there has been a growth of working population in Fukushima, partly attributable to the rebuilding efforts, which also brought about more spending in our halls. The gross pay-ins for halls in Fukushima for the year ended 31 March 2013 amounted to ¥109,917 million, representing an increase of 12.9% compared to ¥97,367 million for the year ended 31 March 2012. However, if natural disasters strike the Fukushima area again in the future, we cannot be certain that our results of operation would remain as unaffected as before.

### **Competition from other forms of entertainment**

Since its introduction in the 1940's, Pachinko has become an established form of entertainment in Japan that incorporates an element of chance. However, in recent years, pachinko operators have been facing competition from gaming activities, namely, horse-racing, bicycle-racing, boat-racing and auto-racing whose target customers overlap with ours. The rise of video games, the internet and other mobile entertainment services, also fuelled the competition that pachinko operators face. In addition, the Diet was previously examining a bill legalising the operations of casinos in Japan in 2014, though, as advised by our Japan Legal Adviser, this bill has since been discarded and there is no longer any formal legislative procedure to consider the legalisation of casino operations in Japan. However, if casino is eventually legalised, pachinko operators will face additional competition.

### **Competition among pachinko hall operators**

Competition among pachinko hall operators is intense. According to EBI, the pachinko market is highly fragmented. There were more than 3,800 pachinko hall operators with approximately 11,893 halls in Japan as of 2013, with only eight large scale operators with over 50 halls each. At the same time, the market size for pachinko shrank at a compound rate of 2.8% from 2009 to 2013.

Our Directors believe that pachinko and pachislot players take into account the following factors when they choose which pachinko hall to visit:

- Selection of machines — whether the variety of machine offerings matches customer tastes in terms of machines titles, jackpot probability, jackpot size and playing cost
- payout ratio of pachinko and pachislot machines and prize mark-up in the hall — whether they are competitive enough as compared to nearby halls
- Cleanliness of the halls and the friendliness of the hall staff — whether the hall environment and services provide a comfortable playing experience
- Location — whether the location of our hall is convenient and close to the playing population and whether it has parking facilities

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From an operator's perspective, we consider payout ratio, G-prize mark-up, and machine offerings as the most important factors in attracting traffic to our halls. Any change of the payout ratio and G-prize mark-up will impact our revenue margin, as well as the amount of net revenue we earn from our players spending in our halls.

Furthermore, the more frequent we replace the existing machines with machines with the latest new titles, the better chance we can retain and attract pachinko players. However, this will also increase our machine expenses. Therefore, it is vital that we can find the optimal point in our operation whereby the incremental cost incurred would not exceed the amount of additional revenue so produced.

Our Directors believe that with:

- (i) our advanced management information system providing us with real time data on the utilisation and financial performance of our machines;
- (ii) our well established relationships with machine manufacturers and priority in securing the newest machine models; and
- (iii) our monitoring team constantly gathering information about our competitors' behaviours;

we are equipped with the necessary tools to operate and react efficiently to remain competitive.

### **Operating efficiency**

Our operating efficiency are key to our results of operation and financial results. During the Track Record Period, our hall operating expenses accounted for 67.9%, 66.9%, 67.4%, 70.0% and 74.8% of our total revenue for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively, while our administrative and other operating expenses accounted for 10.9%, 12.6%, 13.7%, 12.3% and 18.0% of our total revenue for the corresponding year/period, respectively. Our key operating cost included cost of pachinko machines, staff cost for hall staff, and rental expenses as included in our hall operating expenses, and advertising expense as included in our administrative and other operating expenses.

Through our centralised management strategy, we seek to achieve greater operational efficiency and cost controls through standardisation in the branding and building of, the procurement of general prizes and other supplies for use in our pachinko halls across Northeast Honshu (本州島東北) and bulk purchase of advertising space or air time from the media. However, if we are unable to control our cost and we unable to pass such cost to our customers, our results of operations may be adversely affected.

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### Sensitivity analysis

For illustrative purpose, the following sets out the sensitivity analysis in respect of the impact of hypothetical changes in (i) revenue margin; and (ii) pachinko and pachislot machines expenses.

#### (i) Revenue Margin

##### Hypothetical Fluctuation in percentage points

+1%

-1%

+3%

-3%

(¥, in millions)

*Impact on Consolidated Statements of Comprehensive Income Items for the six months ended 30 September 2014*

Change in revenue . . . . .	910	(910)	2,730	(2,730)
Change in profit before income tax . . . .	910	(910)	2,730	(2,730)
Change in profit after income tax . . . . .	590	(590)	1,769	(1,769)

*Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2014*

Change in revenue . . . . .	2,364	(2,364)	7,093	(7,093)
Change in profit before income tax . . . .	2,364	(2,364)	7,093	(7,093)
Change in profit after income tax . . . . .	1,475	(1,475)	4,426	(4,426)

*Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2013*

Change in revenue . . . . .	2,422	(2,422)	7,267	(7,267)
Change in profit before income tax . . . .	2,422	(2,422)	7,267	(7,267)
Change in profit after income tax . . . . .	1,511	(1,511)	4,534	(4,534)

*Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2012*

Change in revenue . . . . .	2,250	(2,250)	6,749	(6,749)
Change in profit before income tax . . . .	2,250	(2,250)	6,749	(6,749)
Change in profit after income tax . . . . .	1,345	(1,345)	4,036	(4,036)

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(ii) ***Pachinko and pachislot machines expenses***

Hypothetical Fluctuation	+5%	-5%	+10%	-10%
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(¥, in millions)

*Impact on Consolidated Statements of Comprehensive Income Items for the six months ended 30 September 2014*

Change in pachinko and pachislot machines expenses . . . . .	224	(224)	448	(448)
Change in profit before income tax . . . .	(224)	224	(448)	448
Change in profit after income tax . . . . .	(145)	145	(290)	290

*Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2014*

Change in pachinko and pachislot machines expenses . . . . .	411	(411)	822	(822)
Change in profit before income tax . . . .	(411)	411	(822)	822
Change in profit after income tax . . . . .	(256)	256	(513)	513

*Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2013*

Change in pachinko and pachislot machines expenses . . . . .	397	(397)	795	(795)
Change in profit before income tax . . . .	(397)	397	(795)	795
Change in profit after income tax . . . . .	(248)	248	(496)	496

*Impact on Consolidated Statements of Comprehensive Income Items for the year ended 31 March 2012*

Change in pachinko and pachislot machines expenses . . . . .	358	(358)	716	(716)
Change in profit before income tax . . . .	(358)	358	(716)	716
Change in profit after income tax . . . . .	(214)	214	(428)	428

### **The opening of new pachinko halls**

Opening of new pachinko halls is one of the most direct means to increase our reach to our target customer base. Currently, we plan to open a total of seven halls by 31 March 2018. The opening of new hall requires substantial capital investment upfront for hall construction and furnishing hall with necessary equipment and supplies including pachinko and pachislot machines. Meanwhile, it takes time to build up player traffic and spending, and hence gross pay-ins, in a newly established hall and additional working capital is required to fund the



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operation before these new halls turn around and start to achieve net operating cash inflows. The demographics, level of disposable income of pachinko customers and the competitive landscape in a particular location varies and can be beyond our control after new halls are constructed and open.

As discussed in “Business — New Hall Development”, when selecting a location for opening a new hall, we consider the following characteristics of the targeted region: (1) its proximity to Fukushima Prefecture (福島) and Tokyo (東京都) (and it is located in Northeast Honshu (本州島東北)); (2) its proximity to our own halls; (3) the population density and demographic, (4) the number of competing halls, (5) the number of machines in the competing halls; and (6) the average number of players per machine. As a general rule, for our suburban halls, there will be commercial areas within a 15 minute drive radius, and such radius must cover at least 50,000 people and have at least 18 people (above 18 years old) per machine (owned by all operators). We will only open halls with an anticipated investment payback period of up to seven years. However, if we are unable to expand according to our plan, or our assessment of location for opening halls proves to be incorrect, our expansion plan may fail and our results of operation may be adversely affected.

### **Increase in consumption tax in Japan**

The increase in consumption tax in Japan has negatively impacted our gross pay-ins and in turn our overall operating results. From 1 April 2014, Japan’s consumption tax rate increased from 5% to 8%. As the players’ spending in our halls are subject to consumption tax, we are required by law to collect such amount and pay to the government. According to our accounting policies, we record the consumption tax net of gross pay-ins, i.e. when a player rents 100 ¥1 balls with us, we record a gross pay-ins of ¥92 only. As such, our gross pay-ins decreased, and this has a negative impact on our revenue and revenue margin. Any further increase in consumption tax rate will exert further pressure on our revenue margin and will adversely affect our revenue and results of operations accordingly.

### **Policies and regulations relating to the pachinko industry**

Policies and regulations implemented by the Japanese government relating to our industry may significantly affect customer demand and behaviour as well as the various operating metrics that impact our results of operations. For example, a regulation was introduced by the Japanese government in 2006 which reduced the jackpot size brought about a sharp drop in the popularity of pachinko and pachislot and adversely impacted the operating results of pachinko hall operators across the industry, including us. Any similar or additional regulatory changes may adversely impact our operating results further.

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### CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The principal accounting policies adopted in preparation of our financial information are prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) which are carried at fair value. A summary of such principal accounting policies adopted in the preparation of our financial information is set out in Note 2 of Section II to the accountant’s report in Appendix I. The following is a discussion of those accounting policies that we believe are most critical in preparing our financial information.

#### Revenue recognition

We recognise revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group’s activities, as described below.

<u>Type of revenue/income</u>	<u>Basis of recognition and timing</u>
Revenue from pachinko and pachislot business . . . . .	Representing gross pay-ins, net of the gross payouts to customers. Revenue is recognised at the end of each player’s visit to a machine. <sup>(1)</sup>
Hotel income . . . . .	Hotel is recognised at the time of occupancy.
Vending machine income . . . . .	Recognised on a straight line basis over the accounting periods covered by the terms and conditions as stipulated in their respective agreement (the monthly rental received).  Contingent vending machine income is recognised in the accounting period in which they are earned (a certain % of sales derived from the vending machines).
Interest income . . . . .	Recognised on a time-proportion basis using the effective interest method.
Income from expired IC and membership cards . . . . .	Representing unused cash balances stored in IC cards and membership cards. Recognised upon the expiry of such cards. <sup>(2)</sup>
Dividend income . . . . .	Recognised when the right to receive payment is established
Sundry income . . . . .	Recognised when the right to receive payment is established.

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### Notes:

- 1 Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of our Group when those inflows result in increase in equity, other than increases relating to contributions from equity participants. The ordinary activity of our Group is the operation of pachinko and pachislot halls to generate economic benefits from customers' visits to the pachinko or pachislot machines. Gross pay-ins represents the amount received from customers for rental pachinko balls and pachislot tokens. Customers utilise such rented pachinko balls and pachislot tokens as they visit the machines and our Group makes payouts to the customers based on the result of their game. Gross pay-outs represents the aggregate cost of G-prizes and general prizes exchanged by customers. As such, the gross inflow of economic benefits to our Group represents the gross pay-ins, net of the gross pay-outs to customers. Therefore, revenue from pachinko and pachislot business is recognised as gross pay-ins net of gross payouts.
- 2 Cash balances stored in membership cards expire when the player does not play with the membership card for 90 consecutive days. Cash balances stored in IC cards expire 21 days after purchase.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to our chief operating decision-maker. We present our results of operations in two reporting segments (i) pachinko and pachislot hall operations, which includes vending machine income; and (ii) others (representing hotel operations).

### Investment properties

Investment properties, principally comprising land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by our Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Investment properties are then stated at historical cost less accumulated depreciation and impairment losses.

Depreciation of investment properties is calculated using the straight-line method their estimated useful lives amounted to 27 to 31 years.

### Property, plant and equipment

Land and buildings comprise mainly pachinko and pachislot halls and offices. All property, plant and equipment are stated at historical cost less depreciation, except freehold land which is not subject to amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is stated at cost less impairment loss. It is not depreciated until completion of the construction and the relevant assets are available for use.

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Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings	20 to 40 years
- Leasehold improvement	Shorter of lease term or useful lives
- Equipment and tools	2 to 20 years
- Motor vehicles	2 to 5 years

We review the residual values and useful lives of our property, plant and equipment at the end of each reporting date and adjust such as necessary.

### **Impairment of non-financial assets (property, plant and equipment, investment properties and intangible assets)**

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances (i.e. when the asset gives rise to negative operating cash flow or there is a significant diminution in fair value of such asset) indicate that the carrying amount (book value) may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

### **Financial assets**

#### **(a) Classification**

We classify our financial assets in the following categories according to IFRS 9: "Financial Instruments": (i) financial assets at amortised costs (such as non-current portion of rental prepayments) and (ii) financial assets (i.e. listed shares and debt securities we held in the Track Record Period) at fair value. Our management determines the classification of its financial assets at initial recognition and depends on whether the financial asset is a debt or equity instrument.

#### *Financial assets at amortised costs*

Financial assets at amortised costs are debt instruments that meet our Group's business model for holding the investments to collect contractual cash flows and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### *Financial assets at fair value*

All equity instruments are measured at fair value. Equity instruments that are held for trading are measured at fair value through profit or loss. For all other equity instruments, we can make

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an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss. We have chosen to recognise the movements of fair value of all our equity securities to other comprehensive income in the Track Record Period. All debt instruments not accounted for under amortised cost are measured at fair value.

(b) **Recognition**

Financial assets are recognised on the trade-date — the date on which our Group commits to purchase or sell the asset. Financial assets are derecognised when our group has transferred substantially all risks and rewards of ownership.

(c) **Measurement at recognition**

Types of Financial Assets	Recognition and measurement
<ul style="list-style-type: none"> <li>Financial assets at amortised costs</li> </ul>	Measured at amortised cost using the effective interest method.
<ul style="list-style-type: none"> <li>Financial assets carried at fair value</li> </ul>	<p>Financial assets carried at fair value through profit or loss — initially recognised at fair value, and transaction costs are expensed in the consolidated statements of comprehensive income</p> <p>Financial assets carried at fair value through other comprehensive income — initially recognised at fair value plus transaction costs</p>

(d) **Subsequent measurement for changes in fair value**

Types of assets / income	Subsequent measurement
<ul style="list-style-type: none"> <li>Financial assets at amortised cost</li> </ul>	Profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method
<ul style="list-style-type: none"> <li>Financial assets at fair value</li> </ul>	<p>Financial assets at fair value through profit or loss — Presented in the consolidated statements of comprehensive income within 'Other losses - net' in the period in which they arise</p> <p>Financial assets at fair value through other comprehensive income — Recognised in other comprehensive income</p>

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Types of assets / income	Subsequent measurement
	Debt instrument that is subsequently measured at fair value — Profit or loss and presented in the consolidated statements of comprehensive income within other (losses)/gains - net in the period in which they arise
	Dividend income is recognised as other income in consolidated statements of comprehensive income when our right to receive payments is established

### Impairment of financial assets

We assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, among others.

### Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs included fees paid on the establishment of loan facilities and are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless our Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### Leases

#### *Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

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### *Finance lease*

Leases of property, plant and equipment where we have substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statements of comprehensive income over the lease period so as to produce a constant interest rate on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### **Critical accounting estimates and judgments**

Accounting estimates and judgments made are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. We make estimates and assumptions concerning the future and by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (i.e. the year ending 31 March 2015) are addressed below.

### *Income taxes*

We are subject to income taxes in Japan. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### *Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market (for example, unlisted securities) is determined by using valuation techniques. We use its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

### *Impairment assessment of property, plant and equipment*

We have substantial investments in property, plant and equipment. Judgment is required in the area of asset impairment, particularly in assessing:

- (1) whether an event has occurred that may indicate that the related asset values may not be recoverable;

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- (2) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or value-in-use, which is the net present value of future cash flows which are estimated based upon the continuous use of the asset in the business; and
- (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

Variations in the assumptions used to determine the level could materially affect the net present value used in the impairment test and as a result affect our financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the profit or loss.

### *Classification of leases*

Determining whether a lease transaction is a finance lease or an operating lease requires judgment as to whether the lease agreement transfers substantially all the risks and rewards of ownership to or from our Group. Judgment is required on aspects including, but not limited to, the following:

- (1) the fair value of the leased asset;
- (2) the economic life of the leased asset;
- (3) whether renewal options are included in the lease term; and
- (4) determining an appropriate discount rate to calculate the present value of the minimum lease payments.

In the Track Record Period, there were no significant change in the estimates mentioned above, and we did not notice significant deviation of our accounting estimates comparing with the actual results. Apart from the critical accounting estimates and judgments as mentioned above, we did not expect our accounting estimates to change materially in the coming financial year.



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### RESULTS OF OPERATIONS OF OUR GROUP

The table below shows our selected consolidated statements of comprehensive income and other financial information for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, as derived from the accountant's report of our Company set out in Appendix I to this Prospectus.

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
	(unaudited)				
Gross pay-ins . . . . .	224,968	242,217	236,449	120,674	90,989
Less: gross payouts . . . . .	(195,340)	(210,298)	(203,455)	(104,682)	(75,798)
<b>Revenue from pachinko and pachislot business</b> . . . . .	29,628	31,919	32,994	15,992	15,191
Other revenue <sup>(Note)</sup> . . . . .	724	832	853	437	381
<b>Revenue</b> . . . . .	30,352	32,751	33,847	16,429	15,572
Other income . . . . .	1,115	446	378	182	801
Other losses, net . . . . .	(504)	(20)	(97)	(81)	(25)
Hall operating expenses . . . . .	(20,609)	(21,909)	(22,798)	(11,494)	(11,644)
Administrative and other operating expenses . . . . .	(3,319)	(4,126)	(4,636)	(2,013)	(2,808)
<b>Operating profit</b> . . . . .	7,035	7,142	6,694	3,023	1,896
Finance income . . . . .	66	63	58	28	88
Finance costs . . . . .	(794)	(720)	(744)	(368)	(357)
Finance costs, net . . . . .	(728)	(657)	(686)	(340)	(269)
<b>Profit before income tax</b> . . . . .	6,307	6,485	6,008	2,683	1,627
Income tax expense . . . . .	(2,978)	(2,720)	(2,310)	(1,060)	(690)
<b>Profit for the year/period attributable to shareholders of the Company</b> . . . . .	<u>3,329</u>	<u>3,765</u>	<u>3,698</u>	<u>1,623</u>	<u>937</u>
<b>Other comprehensive income</b>					
Item that may be reclassified to profit or loss . . . . .					
Change in value of financial assets through other comprehensive income . . . . .	16	124	433	163	(39)
<b>Total comprehensive income attributable to shareholders of the Company</b> . . . . .	<u>3,345</u>	<u>3,889</u>	<u>4,131</u>	<u>1,786</u>	<u>898</u>
Dividends . . . . .	110	110	183	183	183
<b>Earnings per share for profit attributable to shareholders of the Company</b>					
- Basic and diluted (expressed in Japanese Yen per share) . . . . .	<u>855</u>	<u>967</u>	<u>949</u>	<u>417</u>	<u>241</u>

Note: Other revenue comprises (i) vending machine income and (ii) revenue from hotel operations.

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### Description of Components of Results of Operations

#### Gross pay-ins

Our gross pay-ins represent the amount received from customers for rental pachinko balls and pachislot tokens. Our gross pay-ins were ¥224,968 million, ¥242,217 million, ¥236,449 million, ¥120,674 million and ¥90,989 million for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2013 and 2014, respectively.

The table below shows the aggregate gross pay-ins by hall type for the indicated periods.

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
Suburban <sup>(Note)</sup> . . . . .	206,437	91.8	224,493	92.7	219,455	92.8	111,650	92.5	84,175	92.5
Urban <sup>(Note)</sup> . . . . .	18,531	8.2	17,724	7.3	16,994	7.2	9,024	7.5	6,814	7.5
<b>Total</b> . . . . .	<b>224,968</b>	<b>100.0</b>	<b>242,217</b>	<b>100.0</b>	<b>236,449</b>	<b>100.0</b>	<b>120,674</b>	<b>100.0</b>	<b>90,989</b>	<b>100.0</b>

*Note:* According to our accounting policy, gross pay-ins are booked net of consumption tax, i.e., in the six months ended 30 September 2014, ¥92 gross pay-ins would only be recorded if a player rented 100 ¥1 balls with us, as the consumption tax rate is 8%. The consumption tax rate was 5%, 5%, 5% and 8% for the year ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively.

The table below shows the average gross pay-ins per hall by hall type for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for number of halls)									
	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls
Suburban . . . . .	4,915	42	5,221	43	4,988	44	2,538	44	1,913	44
Urban . . . . .	2,316	8	1,969	9	1,888	9	1,003	9	757	9
<b>Total</b> . . . . .	<b>4,499</b>	<b>50</b>	<b>4,658</b>	<b>52</b>	<b>4,461</b>	<b>53</b>	<b>2,277</b>	<b>53</b>	<b>1,717</b>	<b>53</b>

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The table below shows the mix of pachinko machines by playing cost for each hall type as at the indicated periods:

	As at 31 March						As at 30 September			
	2012		2013		2014		2013		2014	
	(number of machines, except for percentages)									
	%		%		%		%		%	
<i>Suburban</i>										
High playing cost <sup>(1)</sup> . . . . .	9,042	60.4	9,140	59.1	9,792	61.7	9,358	58.9	9,204	57.9
Low playing cost <sup>(2)</sup> . . . . .	5,940	39.6	6,324	40.9	6,087	38.3	6,543	41.1	6,691	42.1
<b>Sub-total</b> . . . . .	<b>14,982</b>	<b>100.0</b>	<b>15,464</b>	<b>100.0</b>	<b>15,879</b>	<b>100.0</b>	<b>15,901</b>	<b>100.0</b>	<b>15,895</b>	<b>100.0</b>
<i>Urban</i>										
High playing cost <sup>(1)</sup> . . . . .	899	57.3	891	52.5	877	51.7	877	51.7	848	50.9
Low playing cost <sup>(2)</sup> . . . . .	670	42.7	805	47.5	819	48.3	819	48.3	819	49.1
<b>Sub-total</b> . . . . .	<b>1,569</b>	<b>100.0</b>	<b>1,696</b>	<b>100.0</b>	<b>1,696</b>	<b>100.0</b>	<b>1,696</b>	<b>100.0</b>	<b>1,667</b>	<b>100.0</b>
<b>Total</b> . . . . .	<b>16,551</b>		<b>17,160</b>		<b>17,575</b>		<b>17,597</b>		<b>17,562</b>	

(1) Comprises pachinko machines with playing costs of ¥4 per ball.

(2) Comprises pachinko machines with playing costs below ¥4 per ball.

The table below shows the mix of pachislot machines by playing cost for each hall type as at the indicated periods:

	As at 31 March						As at 30 September			
	2012		2013		2014		2013		2014	
	(number of machines, except for percentages)									
	%		%		%		%		%	
<i>Suburban</i>										
High playing cost <sup>(1)</sup> . . . . .	6,045	88.8	6,389	87.5	6,644	87.0	6,155	81.2	6,545	83.5
Low playing cost <sup>(2)</sup> . . . . .	765	11.2	913	12.5	990	13.0	1,428	18.8	1,289	16.5
<b>Sub-total</b> . . . . .	<b>6,810</b>	<b>100.0</b>	<b>7,302</b>	<b>100.0</b>	<b>7,634</b>	<b>100.0</b>	<b>7,583</b>	<b>100.0</b>	<b>7,834</b>	<b>100.0</b>
<i>Urban</i>										
High playing cost <sup>(1)</sup> . . . . .	511	100.0	635	93.5	605	89.1	605	89.1	634	89.5
Low playing cost <sup>(2)</sup> . . . . .	—	0.0	44	6.5	74	10.9	74	10.9	74	10.5
<b>Sub-total</b> . . . . .	<b>511</b>	<b>100.0</b>	<b>679</b>	<b>100.0</b>	<b>679</b>	<b>100.0</b>	<b>679</b>	<b>100.0</b>	<b>708</b>	<b>100.0</b>
<b>Total</b> . . . . .	<b>7,321</b>		<b>7,981</b>		<b>8,313</b>		<b>8,262</b>		<b>8,542</b>	

(1) Comprises pachislot machines with playing costs of ¥20 per token.

(2) Comprises pachislot machines with playing costs below ¥20 per token.

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During the Track Record Period, our suburban halls contributed over 90% of our total gross pay-ins. Around 60% of the pachinko machines and over 80% of the pachislot machines in suburban halls were high playing cost machines. In our urban halls, approximately 50% to 60% of the pachinko machines and approximately 90% of the pachislot machines were high playing cost machines. We will continue to monitor and adjust the mix of machines in our halls in response to our customers' demands and competitors' strategies with the objective to capture the most business from the playing population.

The table below shows the average number of pachinko and pachislot machines per hall by playing cost for each hall type for the indicated periods.

<b>Pachinko and pachislot machines</b>	<b>As at 31 March</b>			<b>As at 30 September</b>	
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>
<i>Suburban</i>					
High playing cost .....	359	361	373	353	358
Low playing cost .....	<u>160</u>	<u>168</u>	<u>161</u>	<u>181</u>	<u>181</u>
<b>Total</b> .....	<b><u>519</u></b>	<b><u>529</u></b>	<b><u>534</u></b>	<b><u>534</u></b>	<b><u>539</u></b>
<i>Urban</i>					
High playing cost .....	176	170	165	165	165
Low playing cost .....	<u>84</u>	<u>94</u>	<u>99</u>	<u>99</u>	<u>99</u>
<b>Total</b> .....	<b><u>260</u></b>	<b><u>264</u></b>	<b><u>264</u></b>	<b><u>264</u></b>	<b><u>264</u></b>

The average number of pachinko and pachislot machines in suburban halls increased from 519 machines per hall to 539 machines per hall from 31 March 2012 to 30 September 2014. The number of machines per hall in our urban halls remained stable at around 264 machines per hall during the Track Record Period. Such changes in the number of machines per hall in our operation was in line with the market trend.

The table below shows the utilisation rate for low and high playing cost pachinko and pachislot machine in our halls for the indicated periods.

<b>Pachinko machines<sup>(1)</sup></b>	<b>Year ended 31 March</b>			<b>Six months ended 30 September</b>	
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>
	%	%	%	%	%
High playing cost .....	34.4	31.8	27.9	30.0	20.9
Low playing cost <sup>(2)</sup> .....	39.6	37.3	35.8	37.8	33.7
<b>Overall</b> .....	<b>37.3</b>	<b>34.9</b>	<b>32.2</b>	<b>34.5</b>	<b>27.5</b>

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	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
<b>Pachislot machines<sup>(3)</sup></b>	%	%	%	%	%
High playing cost . . . . .	31.0	29.1	27.9	28.0	22.7
Low playing cost <sup>(2)</sup> . . . . .	30.7	30.2	29.0	31.4	23.0
<b>Overall . . . . .</b>	<b>31.0</b>	<b>29.3</b>	<b>28.4</b>	<b>29.2</b>	<b>22.8</b>

- (1) The pachinko machine utilisation rate is calculated by dividing the average number of balls played per day by the maximum number of balls allowed to be played under the machine settings per day. The maximum number of balls allowed to be played under the machine settings played per day is defined as the maximum number of balls allowed to be played under the machine settings per hour (i.e. 6,000 balls) multiplied by the number of operating hours per day (i.e. 13.5 hours).
- (2) Historically, low playing cost machines have a higher utilisation rate, as we believe players tend to stay longer with these machines for entertainment purpose.
- (3) The pachislot machine utilisation rate is calculated by dividing the average number of tokens played per day by the maximum number of tokens allowed to be played under the machine settings per day. The maximum number of tokens allowed to be played under the machine settings per day is defined as the maximum number of tokens allowed to be played under the machine settings per hour (i.e. 2,634 tokens) multiplied by the number of operating hours per day (i.e. 13.5 hours).

Throughout the Track Record Period, we note that the machine utilisation rate was declining. We believe that this was mainly attributable to the decreasing overall spending by customers, as well as the growing number of machines installed in our halls.

### Gross payouts

Gross payouts, which represents the aggregate cost of G-prizes and general prizes exchanged by our customers, amounted to ¥195,340 million, ¥210,298 million, ¥203,455 million, ¥104,682 million and ¥75,798 million for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively. The table below shows the breakdown of our gross payouts by hall type for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
Suburban . . . . .	179,324	91.8	195,151	92.8	189,003	92.9	96,924	92.6	70,207	92.6
Urban . . . . .	16,016	8.2	15,147	7.2	14,452	7.1	7,758	7.4	5,591	7.4
<b>Total . . . . .</b>	<b>195,340</b>	<b>100.0</b>	<b>210,298</b>	<b>100.0</b>	<b>203,455</b>	<b>100.0</b>	<b>104,682</b>	<b>100.0</b>	<b>75,798</b>	<b>100.0</b>

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The table below shows a breakdown of the average gross payouts per hall by hall type for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for number of halls)									
	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls	¥ per hall	Number of halls
Suburban . . . . .	4,270	42	4,538	43	4,296	44	2,203	44	1,596	44
Urban . . . . .	<u>2,002</u>	<u>8</u>	<u>1,683</u>	<u>9</u>	<u>1,606</u>	<u>9</u>	<u>862</u>	<u>9</u>	<u>621</u>	<u>9</u>
<b>Total . . . . .</b>	<b><u>3,907</u></b>	<b><u>50</u></b>	<b><u>4,044</u></b>	<b><u>52</u></b>	<b><u>3,839</u></b>	<b><u>53</u></b>	<b><u>1,975</u></b>	<b><u>53</u></b>	<b><u>1,430</u></b>	<b><u>53</u></b>

The redemption value of G-prizes and general prizes is subject to the level of mark-up which we determine and apply. The higher the mark-up added onto the cost of prizes, the lower the gross payouts would be in redeeming the same amount of balls for prize.

Our general prize (excluding our private brand products) mark-up ranged from 18% to 25%, while our private brand product mark-up was higher, ranging from 43% to 46%. Our Directors have confirmed that there was no material change in our general prize mark-ups (including our private brand products) during the Track Record Period and up to the Latest Practicable Date.

We had no G-prize mark-up during the three years ended 31 March 2014. With effect from 1 April 2014, consumption tax in Japan was increased from 5% to 8%. Significantly, this would have reduced our revenue margin by 3% and also our revenue as we had to bear such tax increase on our gross pay-ins. To counter this, also effective from 1 April 2014, we imposed G-prize mark-ups for all of our halls ranging from 4% to 20% (with an average of around 10%). For example, a mark-up of 10% means a G-prize with a value of ¥5,000 will require an amount of balls or tokens worth ¥5,500 to be exchanged. We applied different G-prize mark-ups (with an objective of maximising our revenue) for different playing costs and game types and in different halls, depending on relevant factors such as player sensitivity to mark-ups and competitors' behavior. In our Directors' view based on market observations, the G-prize mark-ups applied in our halls in Fukushima Prefecture (福島県) were generally similar to that imposed by our major competitors, while some pachinko operators in other areas (such as the Kantō Region (関東地方)) adopted mark-up strategies that were different from ours. Even though such G-prize mark-ups (imposed during the six months ended 30 September 2014) was a key factor in the 24.6% decrease in our gross pay-ins, they also helped increase our revenue margin from 13.3% to 16.7% and ultimately led to a mere drop in revenue by 5.2% (compared to the corresponding period of the previous year).

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After the Track Record Period (namely, in December 2014), we cancelled the G-prize mark-ups for 17 of our halls (all located in the Kantō Region (関東地方)) as some competing halls nearby did not adopt such mark-ups. For these 17 halls<sup>1</sup>, the gross pay-ins attributable to them accounted for 34.5%, 34.0%, 35.3%, 34.8% and 34.1% of our total gross pay-ins, while the revenue attributable to them accounted for 35.1%, 35.7%, 36.4%, 36.3% and 34.3% of our revenue from pachinko and pachislot business, for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively. Such cancellation of G-prize mark-ups will directly cause an increase in gross payouts and a decrease in the revenue margin of such halls. Nevertheless, our Directors expect such cancellation will improve the player traffic (and consequently gross pay-ins) of such halls by attracting players who are relatively sensitive to G-prize mark-ups. Ultimately, the revenue of such halls will also improve if the increase in gross pay-ins is greater than the increase in gross payouts, though this will further depend on a range of interrelated metrics and factors (with G-prize mark-ups being but one of them) that our Directors take into account when they pursue our business objective of maximising our revenue (by striking an optimal balance between gross pay-ins and revenue margin). See “— Financial and Operational Metrics of Our Business” in this section above for details on the impact of G-prize mark-ups on our gross pay-ins, revenue margin and revenue, as well as our other metrics and our business objective. Further, our Directors have confirmed that, saved as disclosed above, there was no material change in our G-prize mark-ups during the Track Record Period and up to the Latest Practicable Date. Going forward, we will continue to monitor and adjust our G-prize mark-ups (with an objective of maximising our revenue), taking into account all relevant factors, such as player sensitivity to mark-ups and competitors’ behavior.

### Revenue

Our total revenue comprises (i) revenue from pachinko and pachislot business, representing gross pay-ins less gross payouts; (ii) rental income from and revenue sharing with vending machine operators for machines placed in our halls; and (iii) revenue from hotel operations in respect of our hotel in Koriyama. Our total revenue amounted to ¥30,352 million, ¥32,751 million, ¥33,847 million, ¥16,429 million and ¥15,572 million for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively.

Revenue and revenue margin of our pachinko and pachislot business are affected by the level of gross pay-ins and gross payouts. Gross pay-ins is primarily affected by the level of customer spending at our halls, which is in turn largely affected by: (1) G-prize mark-ups; (2) payout ratios; (3) number, types and mixes of machines; (4) number and types of halls; (5) number and playing time of customers; (6) competitors’ behavior and the general trend of the pachinko industry; and (7) macroeconomic factors (including tax and inflation). Gross payouts is to a large extent affected by G-prize mark-ups and payout ratios.

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<sup>1</sup> These 17 halls are the halls numbered 29, 34 to 40, 42 to 44, 48 to 51 and 53 to 54 as indicated in the map in “Business — Pachinko and Pachislot Hall Operations — Geographical Focus in Northeast Honshu (本州島東北)”.

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Also included in our revenue were (i) vending machine income represented the rental income and concession income for sharing of the gross receipts of such vending machines; and (ii) revenue from hotel operations for our hotel in Koriyama. The total of such amounted to 2.4%, 2.5%, 2.5%, 2.7% and 2.4% of our total revenue in the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively.

Despite the shrinkage of the pachinko market in general, we were able to achieve an increase in revenue in the year ended 31 March 2012, 2013 and 2014, and only suffered a slight decrease in revenue in the six months ended 30 September 2014 due to our efforts to raise our revenue margin.

The table below shows a breakdown of our total revenue during the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	¥	%	¥	%	¥	%	¥	%	¥	%
	(in millions, except for percentages)									
	(unaudited)									
<b>Revenue from pachinko and pachislot business</b>										
Suburban halls . . . . .	27,113	89.3	29,342	89.6	30,452	90.0	14,727	89.6	13,968	89.7
Urban halls . . . . .	2,515	8.3	2,577	7.9	2,542	7.5	1,265	7.7	1,223	7.9
Sub-total . . . . .	29,628	97.6	31,919	97.5	32,994	97.5	15,992	97.3	15,191	97.6
Vending machine income <sup>(Note 1)</sup> . . . . .	724	2.4	748	2.3	704	2.1	362	2.2	301	1.9
<b>Revenue from pachinko and pachislot hall operations</b>										
Hotel operations <sup>(Note 2)</sup> . . . . .	—	0.0	84	0.3	149	0.4	75	0.5	80	0.5
<b>Total revenue</b> . . . . .	<b>30,352</b>	<b>100.0</b>	<b>32,751</b>	<b>100.0</b>	<b>33,847</b>	<b>100.0</b>	<b>16,429</b>	<b>100.0</b>	<b>15,572</b>	<b>100.0</b>

Notes:

- (1) The total of (i) vending machine income and (ii) revenue from hotel operations equals to "Other revenue" in the statements of comprehensive income as set out in Appendix I to this Prospectus.
- (2) The hotel was temporarily closed in the year ended 31 March 2012 for renovation after the Great East Japan Earthquake.



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### Revenue Margin

Revenue margin for pachinko and pachislot business is calculated as revenue from our pachinko and pachislot business (i.e. gross pay-ins less gross payouts, divided by gross pay-ins). It represents portion of gross pay-ins that we receive as revenue, namely through customers playing our machines and our mark-ups on prize redemption. See “Results of Operations of Our Group — Description of Components of Results of Operations — Revenue” in this section above for discussion of factors impacting our revenue margin. Revenue margin for vending machine income and hotel operations are 100% in the Track Record Period as their income is recognised gross as revenue.

The table below shows a breakdown of revenue margin by type of hall for the indicated periods:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	%	%	%	%	%
Suburban .....	13.1	13.1	13.9	13.2	16.6
Urban .....	13.6	14.5	15.0	14.0	17.9
<b>Overall</b> .....	<b>13.2</b>	<b>13.2</b>	<b>14.0</b>	<b>13.3</b>	<b>16.7</b>

In general, revenue margin for our urban halls is higher than our suburban halls, since urban halls are usually smaller in terms of hall size and gross pay-ins per hall. Therefore, we need a higher margin to recoup the necessary revenue to cover our fixed overheads (in particular, land costs and rent are usually higher in the urban area than in the suburban area).

Revenue margin was rather stable for the three years ended 31 March 2014 but went up to 16.7% for the six months ended 30 September 2014. Such increase in revenue margin mainly resulted from the imposition of G prize mark-ups from 1 April 2014 onwards as a means to mitigate the negative impact on our revenue arising out of the increase in consumption tax from 5% to 8%.

### Other income

Other income mainly represents (i) compensations and subsidies received from government agencies and recovery from insurance companies; (ii) rental income received from G-prize wholesalers for leasing of land in the vicinity of our halls for G-prize buyers and from investment properties; (iii) income from sales of used pachinko and pachislot machines; (iv) dividend income from equity securities and (v) income from expiry of cash balances stored in our IC and membership cards.

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The table below shows a breakdown of other income for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	¥	%	¥	%	¥	%	¥	%	¥	%
(in millions, except for percentages)										
(unaudited)										
Compensation and subsidies and recovery from insurance companies <sup>(1)</sup> . . . . .	889	79.7	127	28.5	44	11.6	10	5.5	598	74.7
Rental income <sup>(2)</sup> . . . . .	89	8.0	161	36.1	149	39.4	76	41.8	74	9.2
Income from sales of used pachinko and pachislot machines <sup>(3)</sup> . . . . .	94	8.4	59	13.2	51	13.5	34	18.7	68	8.5
Dividend income <sup>(4)</sup> . . . . .	4	0.4	29	6.5	67	17.7	35	19.2	34	4.2
Income from expiry of cash balances stored in IC card and membership card <sup>(5)</sup> . . . . .	36	3.2	41	9.2	40	10.6	21	11.5	18	2.2
Others <sup>(6)</sup> . . . . .	3	0.3	29	6.5	27	7.1	6	3.3	9	1.1
<b>Total</b> . . . . .	<b>1,115</b>	<b>100.0</b>	<b>446</b>	<b>100.0</b>	<b>378</b>	<b>100.0</b>	<b>182</b>	<b>100.0</b>	<b>801</b>	<b>100.0</b>

- (1) The amount mainly represents compensations and subsidies from various government and semi-governmental organisations in Japan, such as the subsidies from (i) the Fukushima Labour Bureau\* (福島労働局) for employing disabled staff, (ii) Fukushima Labour Bureau\* (福島労働局) for employing people who were victims of the Great East Japan Earthquake on 11 March 2011 and (iii) compensation received from the Centre for Development of Power Supplies of Japan\* (電源地域振興 センター) for being located in the proximity of a nuclear power plant. The amount also included recovery from insurance companies in the year ended 31 March 2012 on the loss from a fire incident in one of our halls in May 2011. The balance in 30 September 2014 also consisted of compensation from the Tokyo Electric Power Company for the Great East Japan Earthquake on 11 March 2011. See Note 6 of the Accountant's Report set out in Appendix I for further details.
- (2) The amount mainly represents rental income received from G-prize wholesalers for leasing of land in the vicinity of our halls, and rental income from leasing of our investment properties. The rental income in the years ended 31 March 2013 and 2014 also included rental income from subleasing of a piece of land originally rented by us for expansion of our pachinko and pachinko hall operations. All leases in relation to this piece of land was terminated in the year end 31 March 2014.
- (3) The amount represents the income from the sales of used pachinko and pachislot machines. According to our accounting policies, pachinko and pachislot machines are recognised as inventory when they are acquired, and are expensed in the consolidated statements of comprehensive income upon installation. As a result, the net proceeds from sales of used pachinko and pachislot machines are recognised as other income.
- (4) Dividend income represents dividend received from equity securities held in the Track Record Period.
- (5) Income from expiry of cash balances of IC card and membership card represents the income earned when the cash balances stored in IC cards and membership cards expired. Based on the terms of membership card and IC card in force in the Track Record Period, the cash balances stored in the membership cards expire after the customer stops playing for a consecutive period of 90 days while the cash balances stored in IC cards expire 21 days after purchase and such cash balances were recognised as other income upon expiry.
- (6) Others include income derived from the sale of agricultural produce of Merrist's business.

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### Other losses, net

Other losses, net mainly represents (i) the loss on disposal of property, plant and equipment, and loss from the fire incident, (ii) net exchange gain/(loss), (iii) gain/(loss) on movement of fair value of financial assets, (iv) gain/(loss) on fair value for interest rate swap, and (v) gains or losses on disposal of financial assets at fair value through profit or losses.

The table below shows a breakdown of other losses, net for the indicated periods.

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	¥	%	¥	%	¥	%	¥	%	¥	%
(in millions, except for percentages)										
(unaudited)										
Loss on disposal of property, plant and equipment and fire incident <sup>(1)</sup> . . . . .	(537)	106.5	(24)	120.0	(101)	104.1	(85)	104.9	(39)	156.0
Net exchange (loss)/gain <sup>(2)</sup> . . . . .	(3)	0.6	10	-50	3	-3.1	—	0.0	—	0.0
(Loss)/gain on fair value for financial assets at fair value through profit or loss <sup>(3)</sup> . . . . .	(8)	1.6	11	-55	5	-5.2	2	-2.5	4	-16.0
Gain/(loss) on fair value for interest rate swap <sup>(4)</sup> . . . . .	44	-8.7	11	-55	(4)	4.1	(3)	3.7	10	-40
(Loss)/gain on disposal of financial assets at fair value through profit or loss <sup>(5)</sup> . . . . .	—	0.0	(28)	140	—	0.0	5	-6.2	—	0.0
	<b>(504)</b>	<b>100.0</b>	<b>(20)</b>	<b>100.0</b>	<b>(97)</b>	<b>100.0</b>	<b>(81)</b>	<b>100.0</b>	<b>(25)</b>	<b>100.0</b>

(1) The amount mainly represents net loss from disposal of property, plant and equipment. Included in the amount for the year ended 31 March 2012 was a sum of impairment loss of ¥468 million incurred for damage to our properties from the fire in one of our halls.

(2) The amount represents the net exchange gains and losses arising from the translation of the monetary assets and liabilities denominated in currencies other than the functional currency of our Group and the transaction gains or losses arising from the difference of exchange rate between recording and settlement of expenses.

(3) The amount represents the net gains and losses arising from the change in fair value for financial assets recognised as fair value through profit and loss.

(4) The amount represents the net gains and losses arising from the change in fair value for the interest rate swap.

(5) The amount represents the net gains and losses on disposal of financial assets at fair value through profit and losses.

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### Hall operating expenses

Hall operating expenses amounted to 67.9%, 66.9%, 67.4%, 70.0%, and 74.8% of our total revenue in the years ended 31 March 2012, 2013, and 2014 and for the six months ended 30 September 2013 and 2014, respectively. The largest component of our hall operating expenses has been purchases of pachinko and pachislot machines. Such expenditure does not necessarily fluctuate with the trend of our monthly gross pay-ins or revenue. We usually budget our machine spendings based on the forecasted performance of our halls. However, our purchases of new machines are sometimes also dependent on timing of new release of machines from the machine manufacturers.

The table below shows a breakdown of hall operating expenses for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
	(unaudited)									
Pachinko and pachislot										
machine expense . . . . .	7,161	34.7	7,948	36.3	8,216	36.0	4,163	36.2	4,482	38.5
Staff costs for hall staff . . .	4,818	23.4	4,594	21.0	4,626	20.3	2,362	20.5	2,417	20.8
Rental expenses . . . . .	2,198	10.6	2,261	10.3	2,364	10.4	1,147	10.0	1,326	11.4
Utilities and consumables										
expense . . . . .	2,033	9.8	2,366	10.8	2,577	11.3	1,376	12.0	1,306	11.2
Depreciation and										
amortisation expenses . . .	1,848	9.0	1,941	8.9	2,117	9.3	1,059	9.2	948	8.1
Outsourcing service fee . . .	977	4.8	1,148	5.2	1,175	5.2	607	5.3	498	4.3
G-prize procurement										
expenses . . . . .	755	3.7	774	3.5	804	3.5	401	3.5	399	3.4
Repairs and maintenance . .	294	1.4	320	1.5	328	1.4	199	1.7	116	1.0
Others . . . . .	525	2.6	557	2.5	591	2.6	180	1.6	152	1.3
	<u>20,609</u>	<u>100.0</u>	<u>21,909</u>	<u>100.0</u>	<u>22,798</u>	<u>100.0</u>	<u>11,494</u>	<u>100.0</u>	<u>11,644</u>	<u>100.0</u>
Hall operating expenses										
per hall . . . . .	<u>412</u>		<u>421</u>		<u>430</u>		<u>217</u>		<u>220</u>	

### Administrative and other operating expenses

Administrative and other operating expenses mainly represent (i) staff cost, including salary, bonus and other benefits for our administrative and other non-hall staff; (ii) advertising expenses; (iii) listing expenses for the Listing; (iv) rental expenses for our warehouse and business centre; (v) depreciation expenses; (vi) recruitment expenses for recruiting staff to work in our headquarter in Koriyama and our hotel operations; (vii) travelling and transportation expenses; (viii) tax and duties which mainly includes the fixed property tax and revenue stamp duty tax in Japan; (ix) legal and professional fee representing fees paid to auditors, legal advisors and other professional parties; (x) outsourcing service fee mainly includes IT outsourcing services and cleaning service fees; (xi) utilities, repair and maintenance expenses; (xii) impairment loss on property, plant and

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equipment outside our hall operations; and (xiii) provision/(reversal of provision) for trade and other receivables. Administrative and other operating expenses amounted to 10.9%, 12.6%, 13.7%, 12.3% and 18.0% of our total revenue in the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2013 and 2014, respectively.

The table below shows a breakdown of administrative and other operating expenses for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	¥	%	¥	%	¥	%	¥	%	¥	%
	(in millions, except for percentages)									
	(unaudited)									
Staff costs for										
administrative staff . . .	1,331	40.1	1,891	45.8	1,318	28.4	654	32.5	1,331	47.4
Advertising expenses . . .	939	28.3	1,231	29.8	1,362	29.4	733	36.4	680	24.2
Listing expenses . . . . .	—	—	—	—	—	—	—	—	226	8.0
Rental expenses . . . . .	97	2.9	101	2.4	119	2.6	72	3.6	73	2.6
Depreciation and										
amortisation expenses .	206	6.2	84	2.0	138	3.0	69	3.4	70	2.3
Recruitment expense . . .	34	1.0	232	5.6	253	5.5	64	3.2	64	2.3
Travelling and										
transportation . . . . .	83	2.5	109	2.7	119	2.6	57	2.9	61	2.2
Tax and duties . . . . .	85	2.6	99	2.4	100	2.2	11	0.5	54	1.9
Auditor's remuneration and										
legal and professional										
fee . . . . .	35	1.1	45	1.1	53	1.1	28	1.4	50	1.8
Outsourcing service fees . .	25	0.8	33	0.8	48	1.0	23	1.1	32	1.1
Utilities, repair and										
maintenance expenses .	50	1.5	90	2.2	72	1.5	37	1.8	24	0.9
Impairment loss on										
property, plant and										
equipment . . . . .	124	3.7	—	—	620	13.4	—	—	—	—
Write-off/(reversal) of										
doubtful debts . . . . .	116	3.5	(102)	-2.4	2	—	—	—	—	—
Others . . . . .	194	5.8	313	7.6	432	9.3	265	13.2	143	5.3
	<u>3,319</u>	<u>100.0</u>	<u>4,126</u>	<u>100.0</u>	<u>4,636</u>	<u>100.0</u>	<u>2,013</u>	<u>100.0</u>	<u>2,808</u>	<u>100.0</u>

### Finance income and finance cost

Finance income represents the interest income from banks, construction funds placed at certain landlords for our leased properties and debt securities. Finance cost represents the interest expense for our bank borrowings and interest swap contracts, bonds issued, and interest portion of our finance lease and provision for amortisation of initial service charges for our bank borrowings. All of our bank loans are amortising loans, in which principal of our loans is paid down over the life of the loans.

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The table below shows a breakdown of finance income and finance cost for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	(in millions, except for percentages)									
	¥	%	¥	%	¥	%	¥	%	¥	%
	(unaudited)									
<b>Finance income</b>										
Bank interest income . . . . .	3	5	—	—	1	2	—	—	—	—
Other interest income . . . . .	<u>63</u>	<u>95</u>	<u>63</u>	<u>100</u>	<u>57</u>	<u>98</u>	<u>28</u>	<u>100</u>	<u>88</u>	<u>100</u>
	<u>66</u>	<u>100</u>	<u>63</u>	<u>100</u>	<u>58</u>	<u>100</u>	<u>28</u>	<u>100</u>	<u>88</u>	<u>100</u>
<b>Finance costs</b>										
Bank borrowings										
- wholly repayable within 5 years . . . . .	(337)	42	(212)	29	(249)	33	(121)	33	(127)	36
- Not wholly repayable within 5 years . . . . .	(54)	7	(86)	12	(74)	10	(36)	10	(30)	8
Bond interest expense . . . . .	(9)	1	(5)	1	(5)	1	(3)	1	(1)	—
Obligations under finance leases . . . . .	(307)	39	(338)	47	(364)	49	(184)	50	(173)	48
Provision for unwinding discount . . . . .	<u>(87)</u>	<u>11</u>	<u>(79)</u>	<u>11</u>	<u>(52)</u>	<u>7</u>	<u>(24)</u>	<u>7</u>	<u>(26)</u>	<u>7</u>
	<u>(794)</u>	<u>100</u>	<u>(720)</u>	<u>100</u>	<u>(744)</u>	<u>100</u>	<u>(368)</u>	<u>100</u>	<u>(357)</u>	<u>100</u>
<b>Finance costs, net . . . . .</b>	<b><u>(728)</u></b>	<b>N/A</b>	<b><u>(657)</u></b>	<b>N/A</b>	<b><u>(686)</u></b>	<b>N/A</b>	<b><u>(340)</u></b>	<b>N/A</b>	<b><u>(269)</u></b>	<b>N/A</b>

### Income tax expenses

Our income tax expenses primarily include taxes that we pay in Japan and movements in deferred income tax. Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities recorded in consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit.

We are subject to corporate income tax, temporary restoration corporation surtax, inhabitants tax, and enterprise tax in Japan, which, in aggregate, resulted in effective statutory income tax rates of approximately 40.2%, 37.6%, 37.6%, 37.6% and 35.2% for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively.

As a result of 2011 Reform Amendment Tax Law and the Special Restoration Tax Law that were promulgated on 2 December 2011, the corporate income tax rate of Japan reduced from 30% to 25.5% from fiscal years beginning on or after 1 April 2012 and 10% temporary restoration corporation surtax was introduced on the corporate income tax applicable for 3 years period from fiscal years beginning on or after 1 April 2012. The combined effect of these changes led to the decrease in effective statutory tax rate from 40.2% in the year ended 31 March 2012 to 37.6% in the year ended 31 March 2013.

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As advised by our Tax Adviser, under the 2014 Tax Reform that was promulgated on 31 March 2014, 10% temporary restoration corporation surtax ceased one year ahead of schedule and do not apply for the fiscal year beginning on or after 1 April 2014 which led to decrease in our effective statutory tax rate from 37.6% in the year ended 31 March 2014 to 35.2% in the six months ended 30 September 2014. We measured the current income tax for the six months ended 30 September 2014 based on revised applicable income tax rates. The relevant deferred tax assets and liabilities as at 31 March 2014 have been remeasured at the tax rates that are expected to apply to the period when the related assets and liabilities are realised or settled.

The table below shows the tax rate applicable to us in the Track Record Period and the formula in calculating each type of tax, as advised by our Tax Adviser:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
<b>Corporate tax rate</b> .....	30.0%	25.5%	25.5%	25.5%	25.5%
<b>Temporary restoration corporate surtax</b> .....	—	10.0%	10.0%	10.0%	—
<b>Inhabitants tax rate</b>					
Fukushima Prefecture (福島県) .....	18.1%	18.1%	18.1%	18.1%	18.1%
Tokyo (東京都) .....	20.7%	20.7%	20.7%	20.7%	20.7%
Average: .....	19.4%	19.4%	19.4%	19.4%	19.4%
<b>Enterprise tax rate</b>					
<b>(1) Profit-based tax rate:</b>					
Fukushima Prefecture (福島県) .....	2.90%	2.90%	2.90%	2.90%	2.90%
Tokyo (東京都) .....	3.26%	3.26%	3.26%	3.26%	3.26%
Average: .....	3.08%	3.08%	3.08%	3.08%	3.08%
<b>(2) Size-based enterprise tax rate:</b>					
(a) Capital-based .....	0.20%	0.20%	0.20%	0.20%	0.20%
(b) Additional value-based .....					
Fukushima Prefecture (福島県) .....	0.48%	0.48%	0.48%	0.48%	0.48%
Tokyo (東京都) .....	0.504%	0.504%	0.504%	0.504%	0.504%
Average: .....	0.492%	0.492%	0.492%	0.492%	0.492%
<b>(3) Special local corporate tax rate:</b> .....	4.292%	4.292%	4.292%	4.292%	4.292%
<b>Effective statutory tax rate</b> .....	<b>40.2%</b>	<b>37.6%</b>	<b>37.6%</b>	<b>37.6%</b>	<b>35.2%</b>

The formulas for calculating each type of taxes are:

- Corporate tax** = (Taxable income x Corporate tax rate) + Accumulated earnings tax - income tax credit (Note i)

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**2. Temporary restoration corporate surtax** = (Taxable income x Corporate tax rate) x Restoration surtax rate

**3. Inhabitants tax** = (Corporate tax + income tax credit) x Inhabitants tax rate + Inhabitants tax on per capital basis (Note ii, v)

**4. Enterprise tax** is calculated as the sum of the followings:

**(1) Profit-based tax** = Taxable income x Profit-based tax rate (Note v)

**(2) Size-based enterprise tax**

(a) Capital based: (Capital + Capital surplus) x Capital-based tax rate

(b) Additional value based: (Value added expenses + Taxable income) x Additional value-based tax rate (Note iii, v)

**(3) Special local corporate tax** = Taxable income x Special local corporate tax rate (Note iv)

**5. Effective statutory tax rate** is calculated as:

$$\frac{\text{Corporate tax rate} \times [(1 + \text{Restoration corporation surtax}) + \text{Inhabitants tax rate}] + \text{Enterprise tax rate}}{1 + \text{enterprise tax rate}}$$

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*Notes:*

(i) Accumulated earnings tax = Taxable undistributed current earnings x progressive accumulated earnings tax rates as follow:

a. First ¥ 30 million 10% per annum

b. Next ¥ 70 million 15% per annum

c. Over ¥100 million 20% per annum

(ii) Inhabitants tax on per capital basis is determined by the local government by the factors of paid-in capital and the number of employees

(iii) Value added expenses include labour costs, net interest payment and net rental payment

(iv) Special local corporate tax rate = profit based-rate x 148%

(v) Calculated using average rates of Fukushima Prefecture (福島県) and Tokyo (東京都)



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Our income tax expenses were ¥2,978 million, ¥2,720 million, ¥2,310 million, ¥1,060 million and ¥690 million for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. Our effective tax rates were 47.2%, 41.9%, 38.4%, 39.5% and 42.4% for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014. We did not have any dispute with all the relevant tax authorities in the Track Record Period and we have paid all tax in accordance with all relevant laws and regulations. See Note 10 of Section II to the Accountant's Report set forth in Appendix I for more information.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Six months ended 30 September 2014 compared with six months ended 30 September 2013

##### Gross pay-ins

Our gross pay-ins decreased by ¥29,685 million, or 24.6%, from ¥120,674 million for the six months ended 30 September 2013 to ¥90,989 million for the six months ended 30 September 2014. The table below shows changes in gross pay-ins and machine utilisation in our halls:

	Six months ended 30 September		Difference	%
	2013	2014		
(¥ in millions, except for percentages)				
<b>Gross pay-ins</b>				
Suburban.....	111,650	84,175	(27,475)	-24.6%
Urban.....	9,024	6,814	(2,210)	-24.5%
	<u>120,674</u>	<u>90,989</u>	<u>(29,685)</u>	-24.6%
<b>Average gross pay-ins per hall</b>				
Suburban.....	2,538	1,913	(625)	-24.6%
Urban.....	1,003	757	(246)	-24.5%
<b>Overall</b> .....	<b>2,277</b>	<b>1,717</b>	<b>(560)</b>	<b>-24.6%</b>
<b>Machine utilisation</b>				
<i>Pachinko machines</i>				
High playing cost .....	30.0	20.9	-9.1%	N/A
Low playing cost.....	37.8	33.7	-4.1%	N/A
<b>Overall</b> .....	<b>34.5</b>	<b>27.5</b>	<b>-7.0%</b>	<b>N/A</b>
<i>Pachislot machines</i>				
High playing cost .....	28.0	22.7	-5.3%	N/A
Low playing cost.....	31.4	23.0	-8.4%	N/A
<b>Overall</b> .....	<b>29.2</b>	<b>22.8</b>	<b>-6.4%</b>	<b>N/A</b>

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The decrease in gross pay-ins in our halls was mainly due to decreases in player traffic, as a result of (i) the increase in consumption tax from 5% to 8% on 1 April 2014, which had a negative impact on consumer spending in general and (ii) our new policy of imposing mark-ups ranging from 4% to 20% (with an average of around 10%) on G prize redemption. The intention of imposing G-prize mark-up was to raise our revenue (by reducing our gross payouts) to mitigate the adverse effect from the increase in consumption tax from 5% to 8% on our profitability. This new approach increased the revenue margin of our halls but at the same time discouraged those players who sought higher payouts from playing at our halls. Relating to this, we also witnessed a significant drop in the utilisation rate of our machines during the period.

### **Gross payouts**

Our gross payouts decreased by ¥28,884 million, or 27.6%, from ¥104,682 million for the six months ended 30 September 2013 to ¥75,798 million for the six months ended 30 September 2014. The table below shows changes in gross payouts in suburban and urban halls:

	Six months ended 30 September		Difference	%
	2013	2014	2013 vs 2014	
(¥ in millions, except for percentages)				
<b>Gross payouts</b>				
Suburban . . . . .	96,924	70,207	(26,717)	-27.6
Urban . . . . .	7,758	5,591	(2,167)	-27.9
	<b>104,682</b>	<b>75,798</b>	<b>(28,884)</b>	<b>-27.6</b>
<b>Average gross payouts per hall</b>				
Suburban . . . . .	2,203	1,596	(607)	-27.6
Urban . . . . .	862	621	(241)	-28.0
<b>Overall . . . . .</b>	<b>1,975</b>	<b>1,430</b>	<b>545</b>	<b>-27.6</b>

The decrease in gross payouts in the period was mainly due to (i) a decrease in the player traffic, as reflected in drop in gross pay-ins and utilisations in our machines as a result of incorporating G-prize mark-ups on prize redemption from April 2014 onwards as mention above.

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### **Revenue and revenue margin**

Revenue decreased by ¥857 million, or 5.2%, from ¥16,429 million for the six months ended 30 September 2013 to ¥15,572 million for the six months ended 30 September 2014. The table below shows changes in revenue and revenue margin in the period:

	Six months ended 30 September		Difference	%
	2013	2014	2013 vs 2014	
(¥ in millions, except for percentages)				
<b>Revenue from pachinko and pachislot business</b>				
Suburban . . . . .	14,727	13,968	(759)	-5.2
Urban . . . . .	1,265	1,223	(42)	-3.3
Sub-total . . . . .	15,992	15,191	(801)	-5.0
Vending machine income . . . . .	362	301	(61)	-16.9
<b>Revenue from pachinko and pachislot hall operations . . . . .</b>				
	16,354	15,492	(862)	-5.3
Revenue from hotel operations . . . . .	75	80	5	6.7
<b>Total revenue . . . . .</b>	<b>16,429</b>	<b>15,572</b>	<b>(857)</b>	<b>-5.2</b>
<b>Revenue margin of pachinko and pachislot business</b>				
Suburban . . . . .	13.2%	16.6%	3.4%	N/A
Urban . . . . .	14.0%	17.9%	3.9%	N/A
<b>Overall . . . . .</b>	<b>13.3%</b>	<b>16.7%</b>	<b>3.4%</b>	<b>N/A</b>

### **Revenue from and revenue margin of pachinko and pachislot business**

Revenue from pachinko and pachislot hall operations declined by ¥801 million, or 5.0%, from ¥15,992 million for the six months ended 30 September 2013 to ¥15,191 million for the six months ended 30 September 2014. As a result of imposing G-prize mark-ups on prize redemption from 1 April onwards as mentioned above, our revenue margin rose from 13.3% to 16.7%, which helped lessen the drop in revenue from pachinko and pachislot hall operations to only 5.0%, despite the fact that our gross pay-ins decreased by 24.6% during the period. Together with the decrease in vending machine income resulted from fall in hall traffic, we recorded a decrease in our overall revenue of 5.2% during the period.

### **Other income**

Our other income increased by ¥619 million, or 340%, from ¥182 million for the six months ended 30 September 2013 to ¥801 million for the six months ended 30 September 2014. The increase was mainly attributable to the increase in compensation, subsidies and recovery from insurance companies by ¥588 million, or 57.8 times, from ¥10 million for the six months ended 30 September 2013 to ¥598 million for the six months ended 30 September 2014, which included

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a receipt of compensation of ¥590 million from Tokyo Electric Power Company for the loss arising from damages of our hall properties and loss of suspended operation sustained from the Great East Japan Earthquake on 11 March 2011.

### ***Other losses, net***

Our other losses, net decreased by ¥56 million, or 69.1%, from ¥81 million for the six months ended 30 September 2013 to ¥25 million for the six months ended 30 September 2014. The decrease in other losses was mainly due to (i) the decrease in loss on disposal of property, plant and equipment by ¥46 million; and (ii) the gain on fair value movement for interest rate swaps for ¥10 million for the six months ended 30 September 2014 compared to the loss of ¥3 million for the six months ended 30 September 2013, as the fair value of our fixed to floating interest rate swaps (i.e. we pay fixed rate and receive floating rate) held by us rose.

### ***Hall operating expenses***

Our hall operating expenses increased slightly in the six months ended 30 September 2014 as compared to that in the six months ended 30 September 2013. Our hall operating expenses amounted to ¥11,494 million and ¥11,644 million and represented 70.0% and 74.8% of our total revenue in the six months ended 30 September 2013 and 2014, respectively. The increase of our hall operating expenses in the six months ended 30 September 2014 was mainly attributable to the increase of pachinko and pachislot machine expenses as we continued to increase our hall size and to purchase new machines upon their new releases to ensure wide and up-to-date selection of machines was available to attract customers. Furthermore, we also incurred higher staff costs for hall staff in the six months ended 30 September 2014 as a result of our strategy to increase the number of staff per hall to improve our customer experience.

### ***Administrative and other operating expenses***

Our administrative and other operating expenses increased by ¥795 million, or 39.5%, from ¥2,013 million for the six months ended 30 September 2013 compared to ¥2,808 million for six months ended 30 September 2014. The increase was mainly driven by the increase of staff costs by ¥677 million, or 103.5%, from ¥654 million for the six months ended 30 September 2013 to ¥1,331 million for the six months ended 30 September 2014, which was primarily attributable to the one-off payment of ¥600 million to the retiring director of our Company, Mr. Tatsuo TANIGUCHI, as special benefit for his retirement. Such payment was entirely discretionary and was approved by the then board of Directors. Also included in the administrative and other operating expenses was the professional expenses incurred for Listing for ¥226 million.

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### ***Finance income and finance cost***

Our net finance cost decreased by ¥71 million, or 20.9%, from ¥340 million for the six months ended 30 September 2013 to ¥269 million for the six months ended 30 September 2014. The decrease was driven by (i) increase in other interest income by ¥60 million, or 214.3%, from ¥28 million for the six months ended 30 September 2013 to ¥88 million for the six months ended 30 September 2014; and (ii) slight decrease in the finance cost by ¥11 million, or 3.0%, from ¥368 million for the six months ended 30 September 2013 to ¥357 million for the six months ended 30 September 2014.

The increase in other interest income was primarily attributable to the rise in interest income arising from the difference between the cash received from the cancellation of lease of hall properties in Nakano we acquired in the period, and its discounted booked value of the non-current portion of rental prepayments in relation thereto.

The decrease in finance cost was mainly due to the decrease in the interest component for our obligations under finance leases as the balance of outstanding finance lease liabilities decreased compared to that as at 30 September 2013.

### ***Income tax expenses***

Our income tax expenses decreased by ¥370 million, or 34.9%, from ¥1,060 million for the six months ended 30 September 2013 to ¥690 million for the six months ended 30 September 2014. Effective tax rate increased from 39.5% for the six months ended 30 September 2013 to 42.4% for the six months ended 30 September 2014.

The decrease in tax expenses was mainly due to the decrease in profit before tax in the six months ended 30 September 2014 compared to that for the six months ended 30 September 2013. The increase of effective tax rate was mainly attributable to the additional ¥111 million of tax expense arising from the unrecognised tax losses of ¥314 million in relation to interest expenses incurred by our Company in the period.

### ***Profit for the period attributable to shareholders of the Company***

As a result of the foregoing, our profit attributable to shareholders of the Company decreased by ¥686 million, or 42.3%, from ¥1,623 million for the six months ended 30 September 2013 to ¥937 million for the six months ended 30 September 2014. Our net profit margin decreased from 9.9% for the six months ended 30 September 2013 to 6.0% for the six months ended 30 September 2014. However, without the one-off retirement payment of ¥600 million made to Mr. Tatsuo TANIGUCHI and the professional fees of ¥226 million incurred for Listing, our net profit margin for this period would have been stable as compared to the previous period.

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### Year ended 31 March 2014 compared with year ended 31 March 2013

#### Gross pay-ins

Our gross pay-ins decreased slightly by ¥5,768 million, or 2.4%, from ¥242,217 million for the year ended 31 March 2013 to ¥236,449 million for the year ended 31 March 2014. The table below shows changes in gross pay-ins and machine utilisation in our halls:

	Year ended 31 March		Difference	%
	2013	2014	2013 vs 2014	
(¥ in millions, except for percentages)				
<b>Gross pay-ins</b>				
Suburban.....	224,493	219,455	(5,038)	-2.2
Urban.....	<u>17,724</u>	<u>16,994</u>	<u>(730)</u>	<u>-4.1</u>
	<b><u>242,217</u></b>	<b><u>236,449</u></b>	<b><u>(5,768)</u></b>	<b><u>-2.4</u></b>
<b>Average gross pay-ins per hall</b>				
Suburban.....	5,221	4,988	(233)	-4.5
Urban.....	1,969	1,888	(81)	-4.1
<b>Overall</b> .....	<b>4,658</b>	<b>4,461</b>	<b>197</b>	<b>-4.2</b>
<b>Machine utilisation</b>				
<i>Pachinko machines</i>				
High playing cost .....	31.8%	27.9%	-3.9%	N/A
Low playing cost.....	37.3%	35.8%	-1.5%	N/A
<b>Overall</b> .....	<b>34.9%</b>	<b>32.2%</b>	<b>-2.7%</b>	<b>N/A</b>
<i>Pachislot machines</i>				
High playing cost .....	29.1%	27.9%	-1.2%	N/A
Low playing cost.....	30.2%	29.0%	-1.2%	N/A
<b>Overall</b> .....	<b>29.3%</b>	<b>28.4%</b>	<b>-0.9%</b>	<b>N/A</b>

On an average per hall basis, our gross pay-ins for our suburban hall and urban hall decreased by approximately 4.5% and 4.1%, respectively, during the year which was mainly attributable to the decrease in customer traffic and spending as evident in the drop in utilisation across all machines types. At the same time, we also opened a suburban hall in the year ended 31 March 2014, as a result our overall gross pay-ins only suffered a slight decline of 2.4%.

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### Gross payouts

Our gross payouts decreased slightly by ¥6,843 million, or 3.3%, from ¥210,298 million for the year ended 31 March 2013 to ¥203,455 million for the year ended 31 March 2014. The table below shows changes in gross payouts in suburban and urban halls:

	Year ended 31 March		Difference	%
	2013	2014	2013 vs 2014	
(¥ in millions, except for percentages)				
<b>Gross payouts</b>				
Suburban.....	195,151	189,003	(6,148)	-3.2
Urban.....	15,147	14,452	(695)	-4.6
	<b>210,298</b>	<b>203,455</b>	<b>(6,843)</b>	<b>-3.3</b>
<b>Average gross payouts per hall</b>				
Suburban.....	4,538	4,296	(242)	-5.3
Urban.....	1,683	1,606	(77)	-4.6
<b>Overall</b> .....	<b>4,044</b>	<b>3,839</b>	<b>(205)</b>	<b>-5.1</b>

The decrease in gross payouts in the year was in line with the decrease in gross pay-ins in the year as a result of a decrease in utilisation of our machines.

### Revenue and revenue margin

Revenue increased by ¥1,096 million, or 3.3%, from ¥32,751 million for the year ended 31 March 2013 to ¥33,847 million for the year ended 31 March 2014. The table below shows changes in revenue and revenue margin in the year:

	Year ended 31 March		Difference	%
	2013	2014	2013 vs 2014	
(¥ in millions, except for percentages)				
<b>Revenue from pachinko and pachislot business</b>				
Suburban.....	29,342	30,452	1,110	3.8
Urban.....	2,577	2,542	(35)	-1.4
Sub-total .....	31,919	32,994	1,075	3.4
Vending machine income.....	748	704	(44)	-5.9
<b>Revenue from pachinko and pachislot hall operations.....</b>				
Revenue from hotel operations .....	84	149	65	77.4
<b>Total revenue</b> .....	<b>32,751</b>	<b>33,847</b>	<b>1,096</b>	<b>3.3</b>
<b>Revenue margin of pachinko and pachislot business</b>				
Suburban.....	13.1%	13.9%	0.8%	N/A
Urban.....	14.5%	15.0%	0.5%	N/A
<b>Overall</b> .....	<b>13.2%</b>	<b>14.0%</b>	<b>0.8%</b>	<b>N/A</b>

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### ***Revenue and revenue margin of pachinko and pachislot business***

Our revenue from pachinko and pachislot business increased by ¥1,075 million, or 3.4%, from ¥31,919 million for the year ended 30 September 2013 to ¥32,994 million for the year ended 31 March 2014. Despite the decrease in our gross pay-ins, we managed to record an increase in revenue by ¥1,096 million or 3.3%, of which ¥1,075 million was attributable to our hall operations during the period. We managed to raise the overall revenue margin of our halls from 13.2% for the year ended 31 March 2013 to 14.0% for the year ended 31 March 2014 with a lower payout ratio for our machines. This enabled us to achieve a 3.4% increase in revenue against a 2.4% drop in gross pay-ins.

### ***Other income***

Our other income decreased by ¥68 million, or 15.2%, from ¥446 million for the year ended 31 March 2013 to ¥378 million for the year ended 31 March 2014. The decrease was mainly due to a decrease in compensation, subsidies and recovery from insurance companies by ¥83 million, or 65.4%, from ¥127 million for the year ended 31 March 2013 resulting from the receipt of a subsidy of ¥58 million from the Fukushima Prefecture Government for the repair and maintenance of buildings damaged by the Great East Japan Earthquake to ¥44 million for the year ended 31 March 2014. The decrease was partially set off by an increase in dividend income by ¥38 million, or 131.0%, from ¥29 million for the year ended 31 March 2013 to ¥67 million for the year ended 31 March 2014 from an equity investment in a Hong Kong listed pachinko hall operator in Japan, which paid a total of ¥14.25 per share of dividend in the year ended 31 March 2014 compared to ¥5.75 per share in the year ended 31 March 2013.

### ***Other losses, net***

Our other losses increased by ¥77 million, or 3.9 times, from ¥20 million for the year ended 31 March 2013 to ¥97 million for the year ended 31 March 2014. The increase in other losses was mainly due to the increase in loss on disposal of property, plant and equipment by ¥77 million in light of minor improvement and maintenance work for our halls performed in the year ended 31 March 2014.

### ***Hall operating expenses***

Our hall operating expenses increased by ¥889 million, or 4.1%, from ¥21,909 million for the year ended 31 March 2013 to ¥22,798 million for the year ended 31 March 2014. The increase was mainly caused by (i) an increase in pachinko and pachislot machine expenses by ¥268 million, or 3.4%, primarily attributable to the purchase of new machines for the new hall opened in the year; (ii) an increase in utilities and consumables expenses by ¥211 million, or 8.9%, primarily attributable to the increased number of halls and also due to the colder climate in the winter seasons requiring more usage of heating system which led to increased electricity expenses; and (iii) an increase in depreciation and amortisation expenses by ¥176 million, or 9.1%, attributable to the increase in fixed asset as our Company opened a new hall in the year.



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### ***Administrative and other operating expenses***

Our administrative and other operating expenses increased by ¥510 million, or 12.4%, from ¥4,126 million for the year ended 31 March 2013 to ¥4,636 million for year ended 31 March 2014. The increase was mainly caused by (i) an impairment loss on property, plant and equipment for ¥620 million, which was attributable to the impairment of three halls whose net present value calculated under the discounted cash flow model and based on their operating cash flow forecasts fell below their respective net book value, and (ii) an increase in advertising expenses by ¥131 million due to the increase in advertising effort in promoting our new and existing halls.

The increase in administrative and other operating expenses was partially off-set by the decrease in staff cost by ¥573 million, mainly due to the one-off payment of ¥600 million to the retiring director of our Company, Mr. Masataka TANIGUCHI, as special payment for his retirement in the prior year. Such payment was entirely discretionary and was approved by the board of Directors at that time.

### ***Finance income and finance cost***

Our net finance cost increased slightly by ¥29 million, or 4.4%, from ¥657 million for the year 31 March 2013 to ¥686 million for the year ended 31 March 2014. The increase was caused by a slight increase in the finance cost by ¥24 million, or 3.3%, from ¥720 million for the year ended 31 March 2013 to ¥744 million for the year ended 31 March 2014.

The increase in finance cost was mainly due to an increase in the total loan balances from ¥11,073 million as at 31 March 2013 to ¥12,379 million as at 31 March 2014. The average effective interest rate of our bank loans, syndicated loans and bonds we have issued for the year remained stable as compared to the prior year.

### ***Income tax expenses***

Our income tax expenses decreased by ¥410 million, or 15.1%, from ¥2,720 million for the year ended 31 March 2013 to ¥2,310 million for the year ended 31 March 2014. Effective tax rate decreased from 41.9% for the year ended 31 March 2013 to 38.4% for the year ended 31 March 2014.

The decrease in tax expenses was mainly due to a drop in profit before tax for the year as compared to that for the year ended 31 March 2013. The decrease of effective tax rate was mainly due to the utilisation of the tax losses of approximately ¥223 million brought over from a subsidiary, namely Jin Corporation, which was acquired in June 2012.

On 15 June 2012, we acquired the entire share capital of Jin Corporation, a company in which its main asset was the pachinko hall in Hanyu in Saitama Prefecture, with a consideration of ¥820 million. Before the acquisition, Jin corporation had an unutilised tax losses amounting to ¥223 million in its books. As the acquisition of the share capital of the Jin corporation was accounted for as an absorption type merger under the Japan Companies Act, the asset and

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liabilities of Jin Corporation, including its unutilised tax losses were merged with Niraku Corporation. Such unutilised tax loss was set off against the taxable profits of Niraku Corporation in the year ended 31 March 2014. See “History and Corporate Development — Corporate structure and development — Dissolved entities” for further details.

### ***Profit for the year attributable to shareholders of the Company***

As a result of the foregoing, our profit attributable to shareholders of the Company for the year remained stable as compared to the prior year. Our net profit margin decreased from 11.5% for the year ended 31 March 2013 to 10.9% for the year ended 31 March 2014, which was primarily due to an impairment loss on hall assets of ¥620 million made on three of our under-performing halls as included in the administrative and other operating expenses in the year.

### **Year ended 31 March 2013 compared with year ended 31 March 2012**

#### ***Gross pay-ins***

Our gross pay-ins increased by ¥17,429 million, or 7.7%, from ¥224,968 million for the year ended 31 March 2012 to ¥242,217 million for the year ended 31 March 2013. The table below shows changes in gross pay-ins and utilisation in our halls:

	Year ended 31 March		Difference	%
	2012	2013	2012 vs 2013	
(¥ in millions, except for percentages)				
<b>Gross pay-ins</b>				
Suburban.....	206,437	224,493	18,056	8.7%
Urban.....	18,531	17,724	(807)	-4.4%
	<b><u>224,968</u></b>	<b><u>242,217</u></b>	<b><u>17,249</u></b>	<b>7.7%</b>
<b>Average gross pay-ins per hall</b>				
Suburban.....	4,915	5,221	306	6.2%
Urban.....	2,316	1,969	(347)	-15.0%
<b>Overall</b> .....	<b>4,499</b>	<b>4,658</b>	<b>159</b>	<b>3.5%</b>
<b>Machine utilisation</b>				
<i>Pachinko machines</i>				
High playing cost .....	34.4%	31.8%	(2.6)%	N/A
Low playing cost.....	39.6%	37.3%	(2.3)%	N/A
<b>Overall</b> .....	<b>37.3%</b>	<b>34.9%</b>	<b>(2.4)%</b>	<b>N/A</b>
<i>Pachislot machines</i>				
High playing cost .....	31.0%	29.1%	(1.9)%	N/A
Low playing cost.....	30.7%	30.2%	(0.5)%	N/A
<b>Overall</b> .....	<b>31.0%</b>	<b>29.3%</b>	<b>(1.7)%</b>	<b>N/A</b>

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For the year ended 31 March 2013, our overall gross pay-ins from suburban halls registered a gain of 8.7% over the prior year as a result of (i) a strong rebound in player traffic in our halls located in the Fukushima prefecture after the Great East Japan Earthquake and (ii) the addition of an acquired hall through taking over of Jin Corporation. On an average gross pay-ins per hall basis, our suburban halls achieved an increase of 6.2% as compared to the prior year. Although the Great East Japan Earthquake initially forced the temporary closure of our halls in Fukushima, the incident in fact did not cause significant negative impact on our hall business. See “Business — Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake”) for further details of the impact of the Great East Japan Earthquake on our operations. Indeed, according to our observation, after the earthquake, some members of the general public spent more time in pachinko halls. Further, partly attributable to the rebuilding efforts, there was a growth of working population in Fukushima, which brought about more spending in our halls.

For our urban halls, even though we opened a new hall in Tokyo in the year, the gross pay-ins suffered a drop of 4.4%. On an average gross pay-ins per hall basis, we recorded a larger decline of 15% over the prior period. Such a decrease was primarily due to the facts that (i) the newly opened hall in Tokyo did not generate sufficient player traffic in its first year of operation, and (ii) we recorded a higher revenue margin from 13.6% to 14.5% with a slightly lower payout ratio for machines in our halls, which discouraged some customers who were conscious of machine payouts from playing in our halls.

### **Gross payouts**

Our gross payouts increased by ¥14,958 million, or 7.7%, from ¥195,340 million for the year ended 31 March 2012 to ¥210,298 million for the year ended 31 March 2013. The table below shows changes in gross payouts in suburban and urban halls:

	Year ended 31 March		Difference	%
	2012	2013	2012 vs 2013	
(¥ in millions, except for percentages)				
<b>Gross payouts</b>				
Suburban . . . . .	179,324	195,151	15,827	8.8%
Urban . . . . .	<u>16,016</u>	<u>15,147</u>	<u>(869)</u>	<u>-5.4%</u>
	<b><u>195,340</u></b>	<b><u>210,298</u></b>	<b><u>14,958</u></b>	<b><u>7.7%</u></b>
<b>Average gross payouts</b>				
Suburban . . . . .	4,270	4,538	268	6.3%
Urban . . . . .	2,002	1,683	(319)	-15.9%
<b>Overall . . . . .</b>	<b>3,907</b>	<b>4,044</b>	<b>137</b>	<b>3.5%</b>

The movement of gross payouts in both suburban and urban halls generally followed the trend of their respective gross pay-ins.

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### **Revenue and revenue margin**

Revenue increased by ¥2,399 million, or 7.9%, from ¥30,352 million for the year ended 31 March 2012 to ¥32,751 million for the year ended 31 March 2013. The table below shows changes in revenue and revenue margin in the year:

	Year ended 31 March		Difference	%
	2012	2013	2012 vs 2013	
(¥ in millions, except for percentages)				
<b>Revenue from pachinko and pachislot business</b>				
Suburban.....	27,113	29,342	2,229	8.2%
Urban.....	2,515	2,577	62	2.5%
Sub-total .....	29,628	31,919	2,291	7.7%
Vending machine income .....	724	748	24	3.3%
<b>Revenue from pachinko and pachislot hall operations .....</b>				
	30,352	32,667	2,315	7.6%
Revenue from hotel operations .....	—	84	84	N/A
<b>Total revenue .....</b>	<b><u>30,352</u></b>	<b><u>32,751</u></b>	<b><u>2,399</u></b>	<b>7.9%</b>
<b>Revenue margin of pachinko and pachislot business</b>				
Suburban.....	13.1%	13.1%	0.0%	N/A
Urban.....	13.6%	14.5%	0.9%	N/A
<b>Overall .....</b>	<b>13.2%</b>	<b>13.2%</b>	<b>0.0%</b>	<b>N/A</b>

The increase in our revenue was mainly due to the improvement in our gross pay-ins amongst our suburban halls, as the revenue margin was maintained at a stable 13.2% during the year. For our urban halls, we were able to keep our revenue stable, despite a drop of 4.4% in the gross pay-ins during the year, with a slightly lower payout ratio in our halls.

### **Other income**

Our other income decreased by ¥669 million, or 60%, from ¥1,115 million for the year ended 31 March 2012 to ¥446 million for the year ended 31 March 2013. The decrease was mainly attributable to the decrease in compensation, subsidies and recovery from insurance companies by ¥762 million, or 6.0 times, from ¥889 million for the year ended 31 March 2012 to ¥127 million for the year ended 31 March 2013, which was due to the one off recovery of ¥788 million from a insurance company for the fire incident in our hall located in Hiramise, Fukushima in the year ended 31 March 2012.

On 3 May 2011, one of our halls temporarily suspended its operations due to a fire accident. This fire accident caused significant damage to certain property, plant and equipment and inventories and the loss amounted to ¥468 million which was recognised in the year ended 31 March 2012. In addition, the fire accident also interrupted the operation of that hall. We had

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insurance policies which coverage included the damage and costs associated with property, plant and equipment and inventories and provide business interruption coverage, including lost profits. In the year ended 31 March 2012, insurance compensation amounting to ¥788 million was claimed and paid to us from the insurance companies.

### ***Other losses, net***

Our other losses decreased by ¥484 million, or 96.0%, from ¥504 million for the year ended 31 March 2012 to ¥20 million for the year ended 31 March 2013. The decrease in other losses in the year ended 31 March 2013 was mainly due to a loss of ¥468 million incurred in the fire incident in the year ended 31 March 2012, as discussed in the paragraph headed “Other income” above.

### ***Hall operating expenses***

Our hall operating expenses increased by ¥1,300 million, or 6.3%, from ¥20,609 million for the year ended 31 March 2012 to ¥21,909 million for the year ended 31 March 2013. Our hall operating expenses per hall increased by 2.2% from ¥412 million per hall in the year ended 31 March 2012 to ¥421 million per hall in the year ended 31 March 2013. The increase was mainly driven by (i) an increase in pachinko and pachislot machine expenses by ¥787 million, or 11.0%, primarily attributable to the purchase of new machines for the two new halls opened in the year; (ii) an increase in utilities and consumables expenses by ¥333 million, or 16.4%, primarily attributable to the increased number of halls; and (iii) an increase in depreciation and amortisation expenses by ¥93 million, or 5.0%, primarily attributable to the increase in buildings, leasehold improvements and equipment and tools accompanying the opening of two new halls in the year.

### ***Administrative and other operating expenses***

Our administrative and other operating expenses increased for ¥807 million, or 24.3%, from ¥3,319 million for the year ended 31 March 2012 compared to ¥4,126 million for year ended 31 March 2013. The increase was mainly due to (i) an increase in staff cost by ¥560 million, resulted from the one-off discretionary special payment of ¥600 million to the retiring director of our Company, Mr. Masataka TANIGUCHI, for his retirement in the year ended 31 March 2013 as discussed above; (ii) an increase in advertising expenses by ¥292 million in connection with the stronger advertising effort in promoting our new and existing halls; and (iii) an increase in recruitment expense by ¥198 million, mainly attributable to the promotional expenses incurred for the adoption of a new recruitment scheme in the year ended 31 March 2013 for recruiting university graduates to join our ranks.

### ***Finance income and finance cost***

Our net finance cost decreased by ¥71 million, or 9.8%, from ¥728 million for the year 31 March 2012 to ¥657 million for the year ended 31 March 2013. The decrease was caused by a decrease in the finance cost by ¥74 million, or 9.3%, from ¥794 million for the year ended 31 March 2012 to ¥720 million for the year ended 31 March 2013.

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The decrease in finance cost was mainly due to (i) a decrease in the total loan balances from ¥12,229 million as at 31 March 2012 to ¥11,073 million as at 31 March 2013; and (ii) a decrease of average effective interest rate of our syndicated loans from 2.8% per annum for the year ended 31 March 2012 to 2.2% per annum for the year ended 31 March 2013.

### ***Income tax expenses***

Our income tax expenses decreased by ¥258 million, or 8.7%, from ¥2,978 million for the year ended 31 March 2012 to ¥2,720 million for the year ended 31 March 2013. Effective tax rate decreased from 47.2% for the year ended 31 March 2012 to 41.9% for the year ended 31 March 2013.

The decrease in tax expenses was mainly due to a decrease in tax rate in Japan. The national corporate income tax rate of Japan reduced from 30% to 25.5% from fiscal years beginning on or after 1 April 2012 as a result of 2011 Reform Amendment Tax Law promulgated on 2 December 2011. Taking into account other types of statutory tax payable by our Group, our effective statutory income tax rates decreased from 40.2% for the year ended 31 March 2012 to 37.6% for the year ended 31 March 2013.

### ***Profit for the year/period attributable to shareholders of the Company***

As a result of the foregoing, our profit attributable to shareholders of the Company increased by ¥436 million, or 13.1%, from ¥3,329 million for the year ended 31 March 2012 to ¥3,765 million the year ended 31 March 2013. Our net profit margin increased from 11.0% for the year ended 31 March 2012 to 11.5% for the year ended 31 March 2013, which was primarily attributable to a reduction in tax expenses resulting from the decrease in national corporate income tax rate in Japan from 30% to 25.5% from fiscal years beginning on or after 1 April 2012.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash flow and treasury management**

Our principal sources of funds are cash generated from our operations, various short-term and long-term bank borrowings and lines of credit, and cash generated from our bond issues. We generally assess our liquidity based on these items. Our primary liquidity requirements are to finance working capital, fund the payment of interest and principal on our borrowings and bonds, and fund our capital expenditures and the growth and expansion of our operations. We have historically met our working capital and other liquidity requirements principally from cash generated by our operations, while we used proceeds from bank borrowings, syndicate loans and bond issues to finance our capital expenditures, hall investments and expansion of our operations. Going forward, we expect to continue our current approach of (i) relying principally on our internally-generated cash flows for our working capital and other liquidity requirements, and (ii) using the proceeds from the Global Offering and bank borrowings as well as bond issues

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as capital resources to finance our expansion plans. The amount and type of borrowings we may incur in the future depends on (i) the actual capital need, (ii) the cost of financing, (iii) the progress of implementation of our hall opening plan and (iv) our financial performance, among other factors, from time to time.

### Cash flows

The table below shows a summary of our cash flows for the indicated periods:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)			(unaudited)	
Operating cash flows before movements in working capital . . . . .	9,358	9,066	9,604	4,196	2,905
Changes in working capital usage . . . . .	4,077	3,202	3	(635)	1,622
Interest paid . . . . .	(707)	(641)	(692)	(344)	(331)
Income tax paid . . . . .	<u>(1,264)</u>	<u>(3,943)</u>	<u>(2,635)</u>	<u>(1,293)</u>	<u>(1,032)</u>
Net cash generated from operating activities . . . . .	11,464	7,684	6,280	1,924	3,164
Net cash used in investing activities . . . . .	(695)	(2,902)	(1,390)	(962)	(734)
Net cash (used in)/generated from financing activities . . . . .	<u>(3,815)</u>	<u>(10,458)</u>	<u>(3,390)</u>	<u>80</u>	<u>(837)</u>
Net increase/(decrease) in cash and cash equivalents . . . . .	6,954	(5,676)	1,500	1,042	1,593
Cash and cash equivalents at the beginning of the year/period . . . . .	<u>5,631</u>	<u>12,585</u>	<u>6,909</u>	<u>6,909</u>	<u>8,409</u>
<b>Cash and cash equivalents at the end of the year/period, represented by bank balances and cash . . . . .</b>	<b><u>12,585</u></b>	<b><u>6,909</u></b>	<b><u>8,409</u></b>	<b><u>7,951</u></b>	<b><u>10,002</u></b>

### Operating Activities

In the six months ended 30 September 2014, net cash generated from operating activities was ¥3,164 million, which comprised operating cash flows before working capital changes of ¥2,905 million, decrease in working capital usage of ¥1,622 million, interest paid of ¥331 million and income tax paid of ¥1,032 million. The change in working capital mainly reflects (i) an

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increase in accruals, provisions and other payables of ¥1,564 million; (ii) an increase in prepayment, deposits and other receivables of ¥857 million; and (iii) a decrease in inventory of ¥591 million mainly attributable to the purchase of new machines using finance lease. The increase in accruals, provisions and other payables was mainly due to an increase in payables for retirement payment of ¥600 million to Mr. Tatsuo TANIGUCHI (谷口龍雄) and an increase in accrued expenses by ¥546 million for the purchase of pachinko machines. The increase in prepayment, deposits and other receivables was mainly due to an addition of rental deposits for the new halls due to open in November and December 2014.

In the year ended 31 March 2014, net cash generated from operating activities was ¥6,280 million, comprising an operating cash flow before working capital change in the amount of ¥9,604 million, a decrease in working capital usage of ¥3 million, an interest payment of ¥692 million and an income tax payment of ¥2,635 million. The change in working capital mainly reflected (i) a movement of inventory of ¥2,535 million, mainly attributable to the purchase of machines using finance lease; (ii) a decrease in accrual, provisions and other payables of ¥1,222 million; and (iii) an increase in prepayments, deposits and other receivables (mainly including rental and other deposits and rental prepayments) for ¥1,151 million. The decrease in accrual, provisions and other payables was primarily due to (i) a decrease in accrued expenses as there was an accrual of ¥600 million for the retirement payment for Mr. Masataka TANIGUCHI (谷口晶貴) in the year ended 31 March 2013; (ii) a decrease in provisions for utilities and consumables for ¥287 million; and (iii) a decrease in provisions for unutilised balls for ¥145 million. The increase in prepayments, deposits and other receivables was mainly attributable to an increase in prepayment for G-prizes as at 31 March 2014. To maintain a sufficient level of G-prize at our halls, we usually order from our G-prize wholesaler daily to replenish our stock of G-prize to a pre-set level, usually representing the G prize redemption volume for around two days. As 31 March 2014 fell on a Monday with relatively low player traffic whilst 31 March 2013 fell on a Sunday, there was less customers exchanging G-prize on 31 March 2014 leading to a larger amount of G-prize kept in our hall that day. The increase was also due to an increase in rental prepayments by ¥244 million due to recognition of construction fund prepayment for the hall properties for our pachinko hall at Hanyu upon the merger with Jin Corporation in the year.

In the year ended 31 March 2013, net cash generated from operating activities was ¥7,684 million, which was a result of an operating cash flow before working capital change in the amount of ¥9,066 million, a decrease in working capital usage of ¥3,202 million, an interest payment of ¥641 million and an income tax payment of ¥3,943 million. The change in working capital mainly reflected a movement in inventory of ¥3,081 million, which was primarily attributable to the purchase of new pachinko and pachislot machines using finance lease.

In the year ended 31 March 2012, net cash generated from operating activities was ¥11,464 million, which was a result of an operating cash flow before working capital change in the amount of ¥9,358 million, a decrease in working capital usage of ¥4,077 million, an interest payment of ¥707 million and an income tax payment of ¥1,264 million. The change in working capital mainly reflected (i) a movement in inventory of ¥2,365 million mainly attributed to the purchase of new machines using finance lease, (ii) an increase in accruals, provisions and other payables of ¥934 million, and (iii) a decrease in prepayment, deposits and other receivables of ¥561 million. The increase in accruals, provisions and other payables was mainly due to an increase in accrued hall



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construction cost, IT system payables and machine purchasing expenses compared to that as at 31 March 2011 in relation to the cost of opening of the two new halls in the year ended 31 March 2012. The decrease in prepayment, deposits and other receivables was mainly attributable to a decrease in prepayment for G-prizes on 31 March 2012, as there were more player traffic on 31 March 2012, which fell on a Saturday, compared with that of 31 March 2011, which fell on a Thursday.

### Investing Activities

In the six months ended 30 September 2014, net cash used in investing activities amounted to ¥734 million. Our net cash used in investing activities primarily resulted from (i) net cash used in purchase and sale of property, plant and equipment and investment properties of ¥819 million; (ii) net cash inflow from dividend income and from movements of financial assets of ¥73 million; (iii) net cash inflow from movements in long-term and pledged bank deposits of ¥32 million; and (iv) net cash outflow for acquisition of intangible assets for ¥20 million. Net cash used in the purchase and sale of property, plant and equipment and investment properties mainly represented the additions in construction in progress for our new halls opened in November 2014.

In the year ended 31 March 2014, net cash used in investing activities amounted to ¥1,390 million. Our net cash used in investing activities primarily resulted from (i) net cash used in purchase and sale of property, plant and equipment and investment properties of ¥1,314 million; (ii) net cash used in investments of financial assets of ¥145 million; (iii) net cash inflow from movements in long-term and pledged bank deposits of ¥35 million; and (iv) net cash inflow from other items of ¥34 million. Net cash used in purchase of property, plant and equipment mainly represented the additions in buildings for our new hall opened in the period.

In the year ended 31 March 2013, net cash used in investing activities amounted to ¥2,902 million. Our net cash used in investing activities primarily resulted from (i) net cash used in purchase and sale of property, plant and equipment of ¥1,042 million; (ii) net cash outflow from investments of financial assets of ¥633 million; (iii) net cash outflow from movements in long-term and pledged bank deposits of ¥925 million; (iv) cash used in the acquisition of Jin corporation for ¥820 million; (v) net cash inflow from decrease in amounts due from related parties of ¥435 million and (vi) net cash inflow from movements in other items of ¥83 million. Cash used in purchase and sale of property, plant and equipment and investment properties mainly represented the increase in buildings and lands for the two new halls opened in the year.

In the year ended 31 March 2012, net cash used in investing activities amounted to ¥695 million. Our net cash used in investing activities primarily resulted from (i) net cash used in purchase and sale of property, plant and equipment and investment properties of ¥702 million; (ii) net cash inflow from investments of financial assets of ¥5 million; (iii) net cash outflow from movements in long-term and pledged bank deposits of ¥29 million; and (iv) net cash inflow from other items of ¥31 million. Net cash used in purchase and sale of property, plant and equipment and investment properties mainly represented the additions of tools and equipments and the Nomurasyoken Building which is one of our investment properties.

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### Financing Activities

In the six months ended 30 September 2014, net cash used in financing activities amounted to ¥837 million. Our cash used in financing activities primarily resulted from (i) net cash inflow from borrowings and loans of ¥1,636 million; (ii) repayment of obligations under finance leases of ¥776 million; (iii) cash outflow from distribution to shareholders amounted to ¥988 million; (iv) cash outflow from purchase of shares of ¥526 million; and (v) cash outflow from payment of dividend of ¥183 million in the period. The new proceeds from borrowings and loans represented the net proceeds from new loans made to finance our expansion plans and for working capital purpose. The cash distribution to shareholders represented distribution of entire holdings of shares of NI to our controlling shareholder with carrying value of ¥988 million. Cash used in purchase of shares represented the repurchase of shares of companies in our Group from their then shareholders for ¥526 million as part of the reorganisation. See Note 25(e) to the Accountant's Report in Appendix I for further details.

In the year ended 31 March 2014, net cash used in financing activities amounted to ¥3,390 million. Our cash used in financing activities primarily resulted from (i) net cash inflow from borrowings and loans of ¥1,254 million; (ii) repayment of obligations under finance leases of ¥4,461 million; and (iii) cash outflow from dividend payment of ¥183 million in the year.

In the year ended 31 March 2013, net cash used in financing activities amounted to ¥10,458 million. Our cash used in financing activities primarily resulted from (i) net outflow of cash from borrowings and loans of ¥1,235 million; (ii) repayment of obligations under finance leases of ¥4,393 million; (iii) cash outflow from purchase of shares of ¥4,575 million; (iv) cash outflow from repayment of ¥145 million of balances due to a shareholder and related company and (v) cash outflow from dividend payment of ¥110 million in the year. Cash used in purchase of shares represented the repurchase of shares of Niraku Corporation by itself and purchase of Niraku Corporation's shares from the then shareholders for ¥1,131 million and ¥3,432 million respectively. Cash outflow from repayment of balances due to shareholder represented the repayment of principal and interest portion of a loan from Mrs. Kyoko TANIGUCHI (谷口京子) and KAWASHIMA Co., Ltd in the year.

In the year ended 31 March 2012, net cash used in financing activities amounted to ¥3,815 million. Our cash used in financing activities primarily resulted from (i) net cash inflow from borrowings and loans of ¥281 million; (ii) repayment of obligations under finance leases of ¥4,086 million; (iii) cash inflow from collection of ¥100 million of balances from shareholder; and (iv) cash outflow from payment of dividend of ¥110 million paid in the year.

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### CAPITAL EXPENDITURE

#### Historical Capital Expenditure

Our capital expenditure was mainly comprised of expenditure for (i) the purchase of property, plant and equipment mainly used for construction of buildings, or (ii) the acquisition of equipment and tools for the expansion and maintenance of our pachinko and pachislot hall operations. We also incurred capital expenditure for the acquisition for an investment property in year ended 31 March 2012. The table below shows a breakdown of the uses of our historical capital expenditure for the indicated periods:

	For the year ended 31 March			For the six months ended 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Property, plant and equipment . . . . .	2,065	3,457	5,049	1,219
Investment properties . . . . .	519	—	21	—
Others . . . . .	1	15	34	20
<b>Total capital expenditure . . . . .</b>	<b>2,585</b>	<b>3,472</b>	<b>5,104</b>	<b>1,239</b>

#### Estimated Future Capital Expenditure

We expect to incur approximately ¥2,124 million and ¥3,019 million of capital expenditure for the six months ending 31 March 2015 and for the year ending 31 March 2016, respectively, for our business expansion. We expect to fund the capital expenditure for the six months ending 31 March 2015 and for the year ending 31 March 2016 with proceeds from the Global Offering, cash flows from operations and debt financing which may include drawing new short or long term loans or issuing debt instruments. See “— Liquidity and Capital Resources — Cash flow and treasury management” in this section above further details.

The table below shows a breakdown of the uses of our estimated capital expenditure for the indicated periods:

	For the six months ending 31 March	For the year ending 31 March
	2015	2016
	(¥, in millions)	
Property, plant and equipment . . . . .	2,124	3,019

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### CONTRACTUAL COMMITMENTS

#### Operating lease commitments

During the Track Record Period, we leased a number of properties (as lessee) under operating lease to use as our office premises and pachinko hall. The table below sets forth our minimum lease payments payable under non-cancellable operating leases as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
No later than one year . . . . .	595	611	737	848
Later than one year and no later than five years . . . . .	2,378	2,445	3,089	3,412
Over five years . . . . .	4,239	3,714	5,247	5,424
	<u>7,212</u>	<u>6,770</u>	<u>9,073</u>	<u>9,684</u>

#### Capital commitments

In 2014, we entered into a contract for hall construction. The table below sets forth the capital commitments contracted for but not provided in the financial statement under that hall construction contract as at 30 September 2014:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Capital commitments contracted for but not provided in the financial statements				
Hall construction. . . . .	<u>—</u>	<u>407</u>	<u>—</u>	<u>866</u>

### INDEBTEDNESS

As at 31 January 2015, being the latest date for the purpose of liquidity disclosure in this Prospectus, bank borrowings of ¥10,716 million were secured by land and buildings, investment properties, bank deposits, deposits and other receivable and other long-term assets held by our Company and corporate guarantees provided by Niraku Corporation and Nexia. Except for the bank borrowing of ¥2,765 million, ¥4,723 million and ¥3,107 million which was repayable between 1 and 2 years, between 2 and 5 years and over 5 years, respectively, and long term obligations under finance lease of ¥4,578 million, all the remaining indebtedness was repayable within the coming 12 months.

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The table below shows the breakdown of our interest-bearing borrowings, including bank loans, syndicated loans, bond issues and amount due to related parties and company as at the indicated dates:

	As at 31 March			As at 30 September	As at 31 January
	2012	2013	2014	2014	2015
	(¥, in millions)				
<b>Non-current Liabilities</b>					
<i>Borrowings</i>					
Bank loans . . . . .	2,149	2,617	3,469	3,627	4,196
Syndicated loans . . . . .	2,854	5,155	5,606	5,772	5,833
Bonds . . . . .	23	219	195	569	566
Subtotal . . . . .	5,026	7,991	9,270	9,968	10,595
Obligations under finance leases . . . . .	4,135	4,158	5,366	4,090	4,578
Amount due to a related party . . . . .	45	—	—	—	—
	<b>9,206</b>	<b>12,149</b>	<b>14,636</b>	<b>14,058</b>	<b>15,173</b>
<b>Current Liabilities</b>					
<i>Borrowings</i>					
Bank loans . . . . .	1,689	2,034	2,233	3,048	3,321
Syndicated loans . . . . .	5,319	1,001	851	903	983
Bonds . . . . .	195	47	25	122	123
Subtotal . . . . .	7,203	3,082	3,109	4,073	4,427
Obligations under finance leases . . . . .	2,392	2,394	2,253	2,808	2,073
Amount due to a related party . . . . .	100	—	—	—	—
Amount due to a related company . . . . .	—	—	—	24	—
	<b>9,695</b>	<b>5,476</b>	<b>5,362</b>	<b>6,905</b>	<b>6,500</b>
<b>Total indebtedness . . . . .</b>	<b>18,901</b>	<b>17,625</b>	<b>19,998</b>	<b>20,963</b>	<b>21,673</b>

Due to the capital needed for construction of new halls for our expansion, we have relied on bank borrowings, syndicated loans and bond issues to fund a substantial portion of our capital requirements, and we may also finance portions of our capital expenditure with bank borrowings in the foreseeable future. As at 31 March 2012, 2013 and 2014, 30 September 2014, and 31 January 2015, our total indebtedness amounted to ¥18,901 million, ¥17,625 million, ¥19,998 million, ¥20,963 million and ¥21,673 million, respectively. The increase in balance of indebtedness as at 31 January 2015 was mainly due to bank borrowings drawn to finance the opening of our halls in November and December 2014.

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Most of our loans borrowed in the Track Record Period charged floating interest rate based on a benchmark interest rate (ex. TIBOR or LIBOR) plus a margin. As a measure to manage our interest rate risk, we entered into 16 interest rate swap transactions with notional principal and maturity which substantially matched with the 16 bank loans as detailed in “— Analysis of Certain Consolidated Statement of Financial Position Items — Derivative Financial Liability” in this section. See “— Analysis of Certain Consolidated Statement of Financial Positions Items — Financial assets and liabilities at fair value — Derivative financial liability” in this section for further details on the interest rate swaps.

The following sets out the effective interest rate (taking into account the upfront arrangement fees) of our loans in the Track Record Period.

	As at 31 March			As at 30 September
	2012	2013	2014	2014
Bank loans . . . . .	2.9%	2.8%	2.7%	2.7%
Syndicated loans . . . . .	2.8%	2.2%	2.3%	2.3%
Bonds . . . . .	<u>2.1%</u>	<u>1.5%</u>	<u>1.4%</u>	<u>2.0%</u>

Our indebtedness are secured by the following assets as at the indicated periods in the table below:

	As at 31 March			As at 30 September	As at 31 January <sup>(Note)</sup>
	2012	2013	2014	2014	2015
(¥, in millions)					
Property, plant and equipment . . . . .	10,405	10,439	7,902	8,975	10,252
Investment properties . . . . .	683	669	676	669	665
Bank deposits . . . . .	200	1,100	1,100	1,100	1,100
Deposits and other receivables . . . . .	185	180	339	335	333
Other long term assets . . . . .	<u>28</u>	<u>35</u>	<u>37</u>	<u>67</u>	<u>68</u>
	<u><b>11,501</b></u>	<u><b>12,423</b></u>	<u><b>10,054</b></u>	<u><b>11,146</b></u>	<u><b>12,418</b></u>

*Note:* Date of our indebtedness statement.

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As at 31 March 2012, 2013 and 2014, 30 September 2014 and 31 January 2015, the assets with carrying amounts of ¥11,501 million, ¥12,423 million, ¥10,054 million, ¥11,146 million and ¥12,418 million, respectively, including property, plant and equipment, investment properties, bank deposits, deposits and other receivables and other assets, were pledged to secure our bank loans and syndicated loans. Our bank loans, syndicated loans and bonds as at 31 January 2015 have certain financial covenants that we have to comply with. The table below sets out the details of major covenants for the companies in our Group:

Covenant	Fulfilment of covenants as at 31 March 2014 <sup>(note)</sup>	Breach of covenants in the Track Record Period
<b>Niraku Corporation . . (i) Net Asset</b>		
Net asset as at subsequent year ends must not be lower than 80% of that as at:		
31 March 2007	119%	N/A
31 March 2012		
31 March 2013		
31 March 2014		
<b>(ii) Net loss</b>		
Must not have net loss for two consecutive years	Net profit in the years ended 31 March 2013 and 31 March 2014	N/A
<b>(iii) Net equity</b>		
Net equity as at subsequent year ends must not be lower than 75% of that as at 31 March 2013	119%	N/A
<b>(iv) Capital adequacy ratio (total equity ÷ total assets)</b>		
Must be higher than 5% as at subsequent year ends	59%	N/A

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	Covenant	Fulfilment of covenants as at 31 March 2014 <sup>(note)</sup>	Breach of covenants in the Track Record Period
<b>Nexia</b> .....	<b>(i) Net Asset</b>	¥538million	N/A
	Positive net asset at subsequent year ends		
	<b>(ii) Net loss</b>	Net profit in the years ended 31 March 2013 and 2014	N/A
	Must not have net loss for two consecutive years		
<b>NGCH</b> .....	<b>(i) Net Asset</b>	153,997%	N/A
	Net asset at subsequent year ends must not be lower than 80% of that as at 31 March 2013		
	<b>(ii) Net loss</b>	Net profit in the year ended 31 March 2014	N/A
	Must not have net loss for two consecutive years		
<b>Group basis</b> .....	<b>(i) Consolidated Net Asset</b>	104%	N/A
	The consolidated net asset as at subsequent year ends must not be lower than 80% of that as at 31 March 2014		

*Note:* Representing the latest financial year end for the purpose of determining compliance with covenants in loans and borrowings.

Based on our financial performance in the Track Record Period, we do not consider abovementioned covenants will materially restrict our ability to borrow new loans in the future.

Certain of our loans and borrowings as at 31 January 2015 were guaranteed by our Directors and shareholders. Such guarantees will be released or replaced by guarantees by companies in our Group before Listing.



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### Borrowings — non-current portion

The balances represent non-current portion (balances over one year) of our long term borrowings. We generally incur long-term bank and syndicated loans to fund the construction and other capital expenditure of new halls and provide general working capital. We also issued bonds from time to time to finance our capital needs. The non-current portion of our long term borrowings amounted to ¥5,026 million, ¥7,991 million, ¥9,270 million, ¥9,968 million and ¥10,595 million as at 31 March 2012, 2013 and 2014, 30 September 2014 and 31 January 2015, respectively.

The table below shows the maturity profile of the non-current portion of our long-term bank borrowings as at the indicated dates:

	As at 31 March			As at 30 September	As at 31 January
	2012	2013	2014	2014	2015
	(¥, in millions)				
Between 1 and 2 years . .	1,765	1,479	2,278	2,761	2,765
Between 2 and 5 years . .	1,357	2,936	3,884	4,238	4,723
Over 5 years . . . . .	1,904	3,576	3,108	2,969	3,107
	<b><u>5,026</u></b>	<b><u>7,991</u></b>	<b><u>9,270</u></b>	<b><u>9,968</u></b>	<b><u>10,595</u></b>

Included in our long-term borrowings are bond issues consisting of our outstanding corporate bonds issued from 2004 to 2014 in 9 batches, all of which are unlisted. Our outstanding bonds balance amounted to ¥218 million, ¥266 million, ¥220 million and ¥691 million as at 31 March 2012, 2013 and 2014 and 30 September 2014, respectively. The table below shows certain details of these corporate bonds which are unsecured and not guaranteed:

Issue date	Principal amount	Outstanding principle amount (As of 31 January 2015)	Annual interest rate	Maturity date
	¥ million	¥ million	(%)	
30 March 2004 . . . . .	250	—	1.20	28 February 2014
13 July 2006 . . . . .	300	—	1.61	12 July 2012
28 December 2009 . . . . .	200	—	0.70	28 December 2011
18 June 2010 . . . . .	200	—	0.63	28 June 2012
28 December 2010 . . . . .	200	—	0.62	28 December 2012
28 August 2012 . . . . .	160	160	0.70	26 August 2022
30 November 2012 . . . . .	100	100	0.60	30 November 2022
28 August 2014 . . . . .	400	400	0.31	26 August 2016
19 September 2014 . . . . .	100	100	1.00	19 September 2019

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### Borrowings – current portion

The balances represent short term borrowings (maturity less than one year) and the current portion (less than one year) of our long term borrowings. We take out short-term bank loans generally to fund our general working capital. Our short-term bank borrowings and current portion of long term borrowings amounted to ¥7,203 million, ¥3,082 million, ¥3,109 million, ¥4,073 million and ¥4,427 million as at 31 March 2012, 2013 and 2014, 30 September 2014 and 31 January 2015, respectively.

### Obligations under finance lease

Obligation under finance lease is a major component of our liabilities and is principally comprised of a stream of cash flows payable to our landlord or to the vehicle owners in accordance with the property lease agreement or vehicle lease agreements entered with us after netting off the future interest expenses during the remaining lease term of the relevant property lease agreement or vehicle lease agreement. The balance also included finance lease liabilities for the purchase of pachinko and pachislot machines. Future interest expenses are the difference between the present value and the gross value for the finance lease payables. The table below shows the components of our finance lease liabilities as at 31 March 2012, 2013 and 2014 and 30 September 2014:

	As at 31 March			As at
	2012	2013	2014	30 September 2014
	(¥, in millions)			
Gross finance lease liabilities - minimum lease payments . . . . .				
No later than 1 year . . . . .	2,635	2,624	2,536	3,065
Later than 1 year and no later than 2 years . . . . .	1,206	1,331	1,521	1,357
Later than 2 year and no later than 5 years . . . . .	2,185	2,142	2,383	1,835
Later than 5 years . . . . .	1,340	1,192	2,449	1,754
	7,366	7,289	8,889	8,011
Future finance charges on finance leases . . . . .	(839)	(737)	(1,270)	(1,113)
<b>Present value of finance lease liabilities . . . . .</b>	<b><u>6,527</u></b>	<b><u>6,552</u></b>	<b><u>7,619</u></b>	<b><u>6,898</u></b>
<b>In which comprises of:</b>				
<b>Current portion of finance lease liabilities . . . . .</b>	<b><u>2,392</u></b>	<b><u>2,394</u></b>	<b><u>2,253</u></b>	<b><u>2,808</u></b>
<b>Non-current portion of finance lease liabilities . . . . .</b>	<b><u>4,135</u></b>	<b><u>4,158</u></b>	<b><u>5,366</u></b>	<b><u>4,090</u></b>

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Our obligations under finance lease mainly include the leases of hall properties for our pachinko halls which accounted for more than 90% of the total finance lease liabilities as at each of the period/year end in the Track Record Period. As at 31 March 2012, 2013 and 2014 and 30 September 2014, there were eight, nine, ten, and ten pachinko hall properties of which the property lease agreements were classified as finance lease.

The effective interest rate of the finance lease ranged from 4.56% to 4.86% per annum as at 31 March 2012, 2013 and 2014 and as at 30 September 2014. All of these leases are on a fixed repayment term basis and do not have any contingent rental payments arrangements during the Track Record Period.

### **Contingent Liabilities**

We did not have any contingent liabilities as at 31 January 2015.

Save as disclosed in this Prospectus, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as of 31 January 2015, being our indebtedness statement date. Details of material changes to our Group's indebtedness subsequent to the Track Record Period and up to the Latest Practicable Date are set out under the paragraph headed "Financial information – Net current liabilities". Save for the information as disclosed under the paragraph headed "Financial information – Net current liabilities", our Directors confirm that, as at the Latest Practicable Date, there had been no material change in our Group's indebtedness since 31 January 2015.

### **OFF BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**

During the Track Record Period and up to the Latest Practicable Date, we did not have any off balance sheet commitments and arrangements.

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### NET CURRENT ASSETS

The table below shows our current assets and current liabilities as at the date indicated:

	As at 31 March			As at 30 September	As at 31 January
	2012	2013	2014	2014	2015
	(¥, in millions)				
	(unaudited)				
<b>ASSETS</b>					
<b>Current assets</b>					
Inventories . . . . .	412	86	21	40	44
Trade receivables . . . . .	60	64	54	52	57
Prepayments, deposits and other receivables . . . . .	989	1,035	1,546	1,487	1,343
Amounts due from Directors . . . . .	10	12	12	—	—
Financial assets at fair value through profit or loss . . . . .	34	—	100	—	100
Pledged bank deposits and bank deposits with maturity over 3 months . . . . .	758	1,754	1,706	1,639	1,940
Cash and cash equivalents . . . . .	12,585	6,909	8,409	10,002	9,000
Current income tax recoverable . . . . .	—	—	121	370	491
<b>Total current assets</b> . . . . .	<u>14,848</u>	<u>9,860</u>	<u>11,969</u>	<u>13,590</u>	<u>12,975</u>
<b>Current liabilities</b>					
Trade payables . . . . .	347	382	201	145	272
Borrowings . . . . .	7,203	3,082	3,109	4,073	4,427
Obligations under finance leases . . . . .	2,392	2,394	2,253	2,808	2,073
Amount due to a related party . . . . .	100	—	—	—	—
Amount due to a related company . . . . .	—	—	—	24	—
Accruals, provisions and other payables . . . . .	3,577	3,584	2,344	4,325	3,803
Derivative financial instrument . . . . .	18	18	15	15	15
Current income tax liabilities . . . . .	<u>2,375</u>	<u>1,277</u>	<u>1,029</u>	<u>1,235</u>	<u>670</u>
<b>Total current liabilities</b> . . . . .	<u>16,012</u>	<u>10,737</u>	<u>8,951</u>	<u>12,625</u>	<u>11,260</u>
<b>Net current (liabilities)/assets</b> . . . . .	<u><b>(1,164)</b></u>	<u><b>(877)</b></u>	<u><b>3,018</b></u>	<u><b>965</b></u>	<u><b>1,715</b></u>

We incurred significant capital expenditure in the expansion of our business. Our net current liabilities as at 31 March 2012 and 31 March 2013 primarily reflected (i) the current portion of our obligations under finance leases of properties for our pachinko and pachislot hall operations, and (ii) our short-term borrowings and the current portion of our long-term borrowings, primarily to fund our construction and acquisition of pachinko halls. Our working capital positions improved

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during the Track Record Period and we were in net current asset position as at 31 March 2014, 30 September 2014 and 31 January 2015 mainly because we chose to use long term bank loans with tenure of over three years instead of short term borrowings to finance our hall investments during the Track Record Period.

We recorded net current liabilities of ¥1,164 million, ¥877 million and net current assets of ¥3,018 million, ¥965 million and ¥1,715 million as at 31 March 2012, 2013 and 2014, 30 September 2014 and 31 January 2015. Our net current liabilities position improved during 31 March 2013 mainly due to (i) the decrease in short-term bank borrowing and current portion of long term borrowing by ¥4,121 million as such balance had been fully repaid during the year; and (ii) the reduction in the current income tax liabilities by ¥1,098 million as the income tax rate decreased from 40.2% to 37.6% in the year, which was partially set off by the decrease in current asset by ¥4,988 million mainly due to the decrease in cash and cash equivalents from the repurchase of shares in the year.

Our working capital position was further improved during the year ended 31 March 2014. Our cash balance increased by ¥1,500 million whilst our accruals, provisions and other payables balance was reduced by ¥1,240 million during the year, which resulted in a net current asset position of ¥3,018 million as at 31 March 2014.

As at 31 January 2015, the latest date of disclosure of working capital position, we have net current assets of ¥1,715 million. The decrease in net current assets compared to 31 March 2014 was mainly attributable to (i) increase in borrowings by ¥1,318 million to finance the opening of our new halls in November and December, and (ii) increase in accruals, provisions and other payables by ¥1,459 million arising from pachinko and pachislot machines purchased and fixed assets acquired for our new halls not yet settled and accruals for listing expenses in the period. The decrease was partially offset by the increase in pledged bank deposits and bank deposits with maturity over 3 months by ¥234 million as we placed fixed-termed deposits (with maturity less than 1 year) of the same amount in the period.

Although we had historically incurred net current liabilities (see above) as at 31 March 2012 and 31 March 2013, we recorded net current assets of ¥ 3,018 million, ¥965 million and ¥1,715 million as at 31 March 2014, 30 September 2014 and 31 January 2015, respectively, and our daily operations and hall investments were not adversely affected for the following reasons:

- We had significant cash resources during the Track Record Period. Our cash and cash equivalents amounted to ¥12,585 million, ¥6,909 million, ¥8,409 million and ¥10,002 million and ¥9,000 million as at 31 March 2012, 2013 and 2014 and 30 September 2014 and 31 January 2015, respectively.
- We have a strong net cash flow from our operating activities. Our net cash generated from operating activities amounted to ¥11,464 million, ¥7,684 million, ¥6,280 million and ¥3,164 million, for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively. We expect net cash inflow from our operating activities to remain positive for the year ending 31 March 2015; and

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- We have long-term relationships with major commercial banks and financial institutions in Japan. During the Track Record Period, we had made all interest payments on our bank borrowings in a timely manner and we had been able to renew our bank borrowings at maturity. Our Directors do not expect any significant difficulty to obtain new financing if so required.

### ANALYSIS OF CERTAIN CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

The table below shows our non-current assets and non-current liabilities as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
<b>Non-current assets</b>				
Property, plant and equipment . . . . .	22,351	23,735	25,817	25,806
Investment properties . . . . .	683	669	676	669
Intangible assets . . . . .	177	161	167	172
Prepayments, deposits and other receivables . . . . .	4,051	4,310	4,251	4,519
Amounts due from directors . . . . .	318	311	304	—
Amounts due from related companies . .	435	—	—	—
Financial assets at fair value through profit or loss . . . . .	395	546	601	697
Financial assets at fair value through other comprehensive income . . . . .	220	919	1,574	1,476
Deferred income tax assets . . . . .	1,563	1,612	1,462	2,038
Bank deposits with maturity over 1 year . . . . .	142	71	84	119
	<b>30,335</b>	<b>32,334</b>	<b>34,936</b>	<b>35,496</b>
<b>Non-current liabilities</b>				
Borrowings . . . . .	5,026	7,991	9,270	9,968
Obligations under finance leases . . . . .	4,135	4,158	5,366	4,090
Amount due to a related company . . . . .	45	—	—	—
Provisions and other payables . . . . .	1,280	1,430	1,485	1,501
Derivative financial instrument . . . . .	37	26	33	23
	<b>10,523</b>	<b>13,605</b>	<b>16,154</b>	<b>15,582</b>

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### Property, Plant and Equipments

The table below shows our property, plant and equipment as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Freehold land . . . . .	7,253	7,400	7,389	7,752
Buildings . . . . .	7,271	7,691	9,351	9,005
Leasehold improvement . . . . .	4,301	4,482	4,568	4,375
Equipment and tools . . . . .	3,351	3,998	4,374	4,029
Motor vehicles . . . . .	70	103	83	68
Construction in progress . . . . .	105	61	52	577
	<b><u>22,351</u></b>	<b><u>23,735</u></b>	<b><u>25,817</u></b>	<b><u>25,806</u></b>

As at 31 March 2012, 2013 and 2014 and 30 September 2014, we had property, plant and equipment of ¥22,351 million, ¥23,735 million, ¥25,817 million and ¥25,806 million, respectively. Our property, plant and equipment primarily include freehold land, buildings, leasehold improvements, tools and equipment, construction in progress and motor vehicles.

Our balance of property, plant and equipment as at 30 September 2014 remained stable compared with that as at 31 March 2014.

Our property, plant and equipment increased by ¥2,082 million, or 8.8%, from ¥23,735 million as at 31 March 2013 to ¥25,817 million as at 31 March 2014, primarily attributable to a net increase relating to buildings by ¥1,660 million and net increase relating to equipment and tools by ¥376 million. The net increase relating to buildings was mainly due to the cost capitalised for the construction of buildings for the new hall opened in the year. The increase relating to equipment and tools was mainly attributable to the purchase of IT and island equipment for pachinko and pachislot operations in our halls. The increase relating to property, plant and equipment was partially set off by the impairment of ¥620 million made on three of our halls as mentioned in “— Period to period comparison of results of operations — Year ended 31 March 2014 compared with year ended 31 March 2013” above.

Our property, plant and equipment increased by ¥1,384 million, or 6.2%, from ¥22,351 million as at 31 March 2012 to ¥23,735 million as at 31 March 2013. The increase was mainly attributable to the net increase relating to equipment and tools, buildings and leasehold improvements by ¥647 million, ¥420 million and ¥181 million, respectively, as a result of opening of the two new halls in the year ended 31 March 2013.

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### Investment Properties

As at 31 March 2012, 2013 and 2014 and 30 September 2014, we had investment properties of ¥683 million, ¥669 million, ¥676 million and ¥669 million, respectively. Our investment properties are comprised of the following:

- (i) Nomurasyoken Building — an eight storey office building in Koriyama city in the vicinity of Koriyama train station. We own the entire interest of this property including the building and the piece of land on which the property is situated. The building was purchased by our Company in the year ended 31 March 2012 for a consideration of ¥519 million.
- (ii) Nikku Club Omori Building — a three storey residential building near the Omori train station. We own the entire interest in this property including the building and the piece of land on which the property is situated. The building was originally used as staff quarters and was classified as property, plant and equipment in our financial statement. We renovated this property and leased the apartments out in the year ended 31 March 2012. As such, the property was reclassified as our investment properties in the same year at its carrying value of ¥178 million.

As set out in “Critical Accounting Policies — Property, Plant and Equipment” in the section above, investment properties are initially recognised at cost and are subsequently measured at cost minus depreciation. As such, the balance of investment properties as at 31 March 2012 and 2013 represented the cost of acquisition of the Nomurasyoken Building and the net book value of Nikku Club Omori at the date of transfer into investment properties less the accumulated depreciation charged.

We performed certain renovation work on the Nomurasyoken Building in the year ended 31 March 2014 and this led to an increase in the carrying value of investment properties from ¥669 million as at 31 March 2013 to ¥676 million as at 31 March 2014. The decrease in carrying value as at 30 September 2014 was due to the depreciation expenses charged in the period.

We engaged DTZ as our valuer for some of our properties including the investment properties. We note that the market value for our investment properties as per the valuation report exceeds their book value. See “— Property Interest and Property Valuation” in this section below and the valuation report as set out in Appendix III for further details.



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### Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables are mainly comprised of (i) rental and other deposits; (ii) rental prepayments for our leased hall properties; (iii) loans receivables from employees; and (iv) prepayment for G-prize and general prize representing the G-prize and general prize held by us as stock as at the period/year end. The table below shows the amounts as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
<b>Non-current portion</b>				
Rental and other deposits . . . . .	2,567	2,781	2,597	3,022
Rental prepayments . . . . .	1,410	1,443	1,540	1,386
Loans receivables . . . . .	21	21	2	2
Other prepayments and receivables . . .	53	65	112	109
	<b>4,051</b>	<b>4,310</b>	<b>4,251</b>	<b>4,519</b>
<b>Current portion</b>				
Prepayment for G-prize . . . . .	283	304	542	617
Prepayment for general prize . . . . .	97	101	147	99
Rental prepayments . . . . .	362	363	510	519
Other prepayments and receivables . . .	246	266	346	251
Loans receivables . . . . .	1	1	1	1
	<b>989</b>	<b>1,035</b>	<b>1,546</b>	<b>1,487</b>
	<b>5,040</b>	<b>5,345</b>	<b>5,797</b>	<b>6,006</b>

Our total prepayments, deposits and other receivables increased by ¥209 million, or 3.6%, from ¥5,797 million as at 31 March 2014 to ¥6,006 million as at 30 September 2014. The increase was mainly attributable to the increase in rental and other deposits by ¥425 million, which was mainly due to deposits paid to landlords in respect of leases of properties for our hall opened in December 2014.

Our total prepayments, deposits and other receivables increased by ¥452 million, or 8.5%, from ¥5,345 million as at 31 March 2013 to ¥5,797 million as at 31 March 2014. The increase was mainly attributable to (i) an increase in prepayment for G-prize by ¥238 million; and (ii) an increase in current and non-current portion of rental prepayments by ¥147 million and ¥97 million, respectively.

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The balance of prepayment for G-prize at year/period end date depends on the player traffic of that particular day. At the beginning of each day, we generally keep stock of G-prizes sufficient for our customer traffic for two days. At the end of each day, we will place order with G-prize wholesaler for delivery on the next working day to top up our holdings to the pre-set stock level. The increase in prepayment for G-prize as at 31 March 2014 was mainly attributable to the fact that 31 March 2014 fell on a Monday with lower player traffic (i.e. less G-prize exchanged in the day) than 31 March 2013, which fell on a Sunday with higher player traffic (i.e. more G-prize exchanged in the day).

When opening a new suburban hall, we will identify the appropriate property site and then typically enter into a lease agreement (with a term of up to 20 years) to lease the piece of land which may include the actual hall properties. In some cases, the hall properties would not have been built when we sign the lease agreement. If so, upon signing, we will prepay to the landlord a portion of our total lease payment obligations (under the lease agreement) in order to finance the landlord's construction of the hall properties. This prepayment will be amortised throughout the entire term of the lease (thus, there is a current and non-current portion) and set off against each of our monthly lease payments. The current and non-current portion of rental prepayments in aggregate amounted to ¥1,772 million, ¥1,806 million, ¥2,050 million, ¥1,905 million as at 31 March 2012, 2013 and 2014 and 30 September 2014, respectively. We have never experienced landlords failing to deliver the hall properties for our use, and there was no impairment charged in relation to such rental prepayments in the Track Record Period. The increase in rental prepayments was mainly because of the recognition of rental prepayment made to landlord of Hanyu hall upon its acquisition in the year ended 31 March 2013.

Our total prepayments, deposits and other receivables increased by ¥305 million, or 6.1%, from ¥5,040 million as at 31 March 2012 to ¥5,345 million as at 31 March 2013. The increase was mainly attributable to the increase in rental and other deposits by ¥214 million, which was due to deposits paid to landlords for the new hall opened in the year ended 31 March 2014.

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### Amount Due from Directors, a Shareholder and Related Companies

The table below shows our amount due from directors, shareholders and related companies as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
<b>Amounts due from directors and a shareholder</b>				
Hisanori TANIGUCHI.....	98	97	95	—
Tatsuo TANIGUCHI.....	98	97	95	—
Masataka TANIGUCHI.....	132	129	126	—
	328	323	316	—
<b>Amounts due from related companies</b>				
Jukki Limited.....	70	—	—	—
Densho Limited.....	70	—	—	—
Echo Limited.....	70	—	—	—
Daiki Limited.....	70	—	—	—
Hokuyo Kanko Limited.....	155	—	—	—
	435	—	—	—
<b>Amounts due to related companies</b>				
KAWASHIMA Co., Ltd.....	(45)	—	—	—
Niraku Investment Inc.....	—	—	—	(24)
	(45)	—	—	(24)
<b>Amount due to a related party</b>				
Kyoko TANIGUCHI.....	(100)	—	—	—

Amounts due from Directors and Shareholders mainly represent the rental deposits and prepaid rental for leasing property from them in respect of our hall in Nakano. The amounts have been settled after we acquired the hall property in the six months ended 30 September 2014.

Amounts due from related companies represented the interest bearing loans offered to companies which are members of the Taniguchi Consortium. Amount due to related companies represented (i) a loan, which was interest bearing due to KAWASHIMA Co., Ltd, a company owned by members of the Taniguchi family; and (ii) a sum of short-term advance from Niraku Investment Inc., a company owned by our shareholders. Amount due to a related party represented an interest bearing loan which was repayable on 1 February 2012 from Kyoko TANIGUCHI, a member of the Taniguchi Consortium.

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Since we were a private company before Listing and our Directors managed the capital and funding needs of the then members of our Group as a whole, we occasionally entered into various loans and short-term advances arrangement with members of our shareholder, Directors and related companies. In view of our Listing, all of the balances due from or due to our shareholder, Directors and related companies as mentioned above have been settled before the date of issue of this Prospectus.

### Financial assets and liabilities at fair value

The table below shows our financial assets and liabilities recorded at fair value as at the indicated dates:

#### Financial assets at fair value through profit or loss

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
<b>Unlisted securities</b>				
- Debt securities . . . . .	429	546	701	697
- Less non-current portion . . . . .	<u>(395)</u>	<u>(546)</u>	<u>(601)</u>	<u>(697)</u>
Current portion . . . . .	<u>34</u>	<u>—</u>	<u>100</u>	<u>—</u>

#### Financial assets at fair value through other comprehensive income

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
<b>Listed securities</b>				
- Equity securities . . . . .	134	909	1,574	1,474
<b>Unlisted securities</b>				
- Equity securities . . . . .	<u>86</u>	<u>10</u>	<u>—</u>	<u>2</u>
Non-current portion . . . . .	<u>220</u>	<u>919</u>	<u>1,574</u>	<u>1,476</u>

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### Derivative financial liability

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Interest rate swap . . . . .	55	44	48	38
Less non-current portion . . . . .	(37)	(26)	(33)	(23)
Current portion . . . . .	<u>18</u>	<u>18</u>	<u>15</u>	<u>15</u>

### Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss represents unlisted debt securities in Japan that we purchased as part of our treasury management strategy aiming to obtain higher yield than regular bank deposits. Our investments in debt securities in the Track Record Period were kept with registered banks in Japan. We invested in (i) sovereign bonds issued by Japan, (ii) bonds with fixed return, (iii) bonds with embedded options resulting in variable return, and (iv) units in a certain trust in the Track Record Period. There has been no default or any impairment made to the debt securities we held in the Track Record Period. The table below shows the total gains/losses of our financial assets at fair value through profit and loss during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
	(unaudited)				
(Loss)/gain on fair value for financial assets at fair through profit or loss . . . . .	(8)	11	5	2	4
(Loss)/gain on disposal of financial assets at fair value through profit or loss . . . . .	<u>—</u>	<u>(28)</u>	<u>—</u>	<u>5</u>	<u>—</u>
Total . . . . .	<u>(8)</u>	<u>(17)</u>	<u>5</u>	<u>7</u>	<u>4</u>

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As at 30 September 2014, the fair value of the debt securities we held amounted to ¥697 million. The debt securities consisted of sovereign bonds issued by Japanese government, debt securities issued by financial institutions in Japan, and units in two trusts organised by a bank in Japan. In the future, if we are to dispose of the investments in sovereign bonds, we will approach banks or securities houses for price quotes. If we are to dispose of the bonds with embedded options, we will contact the issuer of the bonds to unwind the investment positions. We intend to hold the trust instruments till their maturity. There are no terms in such debt securities that will cause us to lose our entitlement to the full principal amount thereunder. The table below shows a summary of the features of the debt securities:

Name	Type of debt instrument	Issuer	Term	Maturity	Interest rate	Other features	Carrying value as at 30 September 2014 (¥, in millions)
<b>Sovereign bond (1)</b>							
Interest-bearing treasury bonds - 333th round	Plain bond	Japanese government	1 year 11 months	15/10/2015	0.058%		100
Interest-bearing treasury bonds - 340th round	Plain bond	Japanese government	1 year 11 months	15/5/2016	0.053%		100
							200
<b>Bond with embedded options (2)</b>							
Unsecured bond with repayment clause - 2nd round	Bond with early retirement feature and variable return	A bank in Japan	10 years	25/3/2020	(i) First 5 years - 3.36%, (ii) Remaining term - 6 month TIBOR + 4.1%	<b>Early retirement clause:</b> Issuer can recall all or part of the loan at each interest payment date at face value.	300
Multi-Collar bull swap rate-linked bond	Bond with early retirement feature and variable return	A registered financial institution in Japan	20 years	19/3/2027	(i) First 6 months - 2%, (ii) Remaining term - a. Nikkei > 15,160 points - Different between 10-year and 2-year yen swap rate + 0.5% When Nikkei <15,160, interest rate = 0.1%	<b>Early retirement clause:</b> (i) Issuer can recall all or part of the loan at each interest payment date at face value. (ii) Force redemption when Nikkei > 18,530 at any interest payment date	97
							397
<b>Trust instruments (3)</b>							
Trust instrument (with designated usage)	Trust units	A bank in Japan	10 years	3/8/2022	0.680%		50
Trust instrument (with designated usage)	Trust units	A bank in Japan	10 years	21/6/2023	0.730%		50
							100
Total							697

**Notes:**

- (1) It represents bonds issued by government or fully backed by government. Bonds included in this category are plain bonds with no embedded options or features.
- (2) It represents debt instruments with return linked to the performance of stock index or share price of a basket of shares.

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- (3) It represents investments in unit of a trust organised by a bank in Japan. The aim of these trust funds is to invest in business in Fukushima to support the revival of its economy. The trust intends to offer a fixed return over its investment period but the final return is subject to the actual performance of the trust.

### *Financial assets at fair value through other comprehensive income*

Our financial asset at fair value through other comprehensive income represented our investments in equity securities. The majority of our holdings in equity securities in the Track Record Period was the Hong Kong listed shares of a fellow pachinko hall operator in Japan. Our other holdings of equity securities mainly represented holdings in listed shares of banks, consumables suppliers, machines suppliers and engineering companies in which we had business relationship with. We consider these investments as our strategic investment and does not have any plans to dispose of such equity securities. Hence, such shares are accounted for as financial assets at fair value through other comprehensive income in non-current assets.

The increase of financial asset at fair value through other comprehensive income in the Track Record Period mainly represented the increase in share price of the fellow pachinko hall operator due to the listing of its shares in the year ended 31 March 2013. The slight decrease in the balance as at 30 September 2014 mainly represented the decrease in quoted market price of shares of the fellow pachinko player. The table below shows the changes in other comprehensive income as a result of movement in fair value of these investments during the Track Record Period.

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
	(unaudited)				
Changes in fair value of financial assets through other comprehensive income . . . . .	16	124	433	163	(39)

As a measure to further strengthen our risk management, we will limit the total amount of our investments in debt securities and equity securities in aggregate to not more than 5% of our total assets upon Listing. Our equity investments mainly represented strategic investments in the equity of various stakeholders in the pachinko industry, primarily to support and promote long-term relationships with industry players. In particular, we purchased shares of a fellow pachinko hall operator listed on the Stock Exchange to show support towards and promote the image of the pachinko industry. Such investment accounted for approximately 55% of the total amount of our investments in securities as at 30 September 2014. Going forward, while maintaining our securities investment limit to 5% of our total assets, we intend to prioritise our investment in the stakeholders of the pachinko industries with a secondary focus on debt securities having a credit rating of investment grade or above (as rated by international rating agencies). We do not plan to enter into any derivatives transactions with the exceptions of interest rate swap to manage our interest rate exposures arising from floating rate borrowings if such need arises.

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As at 30 September 2014, except for the ¥2 million equity investment in a private company in Japan, all the other holdings in equity securities were listed securities, while all of our debt securities held were unlisted. The table below shows a breakdown of our equity holdings by location of listing and industry as at 30 September 2014:

	<b>As at 30 September 2014</b>
	<b>(¥, in millions)</b>
Equity securities listed on	
- Tokyo Stock Exchange . . . . .	212
- Sapporo Securities Exchange . . . . .	11
- Stock Exchange . . . . .	<u>1,251</u>
	1,474
Unlisted equity securities . . . . .	<u>2</u>
<b>Total value of equity securities . . . . .</b>	<b><u>1,476</u></b>

Our Executive Director is responsible for monitoring our investment limit, investment decisions and the performance of the investment portfolio, in accordance with the internal control measures. Our head of finance department will monitor the price of equity securities on a daily basis and price of debt securities by checking to the monthly custodian statement received. The credit rating of the issuer of the debt securities will also be checked monthly. The head of finance department will alert our Executive Director when price of the listed share drops by 15% of its acquisition cost, or when an issuer of debt securities we hold suffers a major credit downgrade. Our Executive Director will decide on whether to dispose of the investment depending on assessment of market outlook and potential loss. Our Audit Committee will be responsible for reviewing the positions and performance of our investment portfolio on a quarterly basis and provide recommendation as to the internal control procedures for our investment as appropriate.



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### Derivative financial liability

In the Track Record Period, we entered into a total of 16 floating to fix interest rate swap contracts with three banks in Japan (i.e. we pay fixed rate and receive floating rate). We entered into these interest rate swaps as a measure to manage our interest rate risk in relation to our loans. As some of our loans' interest rate is on a floating rate basis, by entering into a floating interest rate to fixed interest rate swap, we can lock in our finance cost at the desired fixed interest rate. The following sets forth a breakdown of the interest rate swaps and the respective loan pair in the Track Record Period:

### Swap contracts

Contract Number	Interest Rate Swaps						Loans with Floating Interest Rate							
	Start date	End date	Interest rate we pay	Interest rate we receive	Notional amount as at <sup>(1)</sup>		Loan Number	Loan Name	Start date of the loan	End date of the loan	Interest rate	Loan Balance as at <sup>(1)</sup>		
					31 March 2012	31 March 2013						31 March 2014	30 September 2014	
201	25/12/2006	26/3/2012	4.14%	3 TIBOR +2.25%	N/A	N/A	N/A	N/A	30/9/2007	26/3/2012	3 mth TIBOR +2.25%	N/A	N/A	N/A
202	25/12/2006	26/3/2012	4.15%	6 mth TIBOR +2.25%	N/A	N/A	N/A	N/A	25/12/2006	25/3/2012	6 mth TIBOR +2.25%	N/A	N/A	N/A
227	3/9/2007	22/3/2013	3.86%	3 mth TIBOR +2.125%	210	N/A	N/A	N/A	21/3/2007	22/3/2013	3 mth TIBOR +2.125%	300	N/A	N/A
249	24/3/2008	22/3/2013	3.70%	3 mth TIBOR +2.125%	350	70	N/A	N/A	24/3/2008	22/3/2013	3 mth TIBOR +2.125%	250	N/A	N/A
238	28/12/2007	28/6/2013	3.94%	3 mth TIBOR +2.125%	375	75	N/A	N/A	28/12/2007	30/6/2013	3 mth TIBOR +2.125%	375	75	N/A
240-A	7/3/2008	7/9/2017	3.99%	3 mth TIBOR +2.125%	694	568	442	378	7/9/2007	7/9/2017	3 mth TIBOR +2.125%	694	568	442
240-B	7/3/2008	7/9/2012	3.67%	3 mth TIBOR +2.125%	33	N/A	N/A	N/A	7/9/2007	7/9/2012	3 mth TIBOR +2.125%	33	N/A	N/A

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Interest Rate Swaps										Loans with Floating Interest Rate									
Contract Number	Start date	End date	Interest rate we pay	Interest rate we receive	Notional amount as at <sup>(1)</sup>				Loan Number	Loan Name	Start date of the loan	End date of the loan	Interest rate	Loan Balance as at <sup>(1)</sup>					
					31 March 2012	31 March 2013	31 March 2014	30 September 2014						31 March 2012	31 March 2013	31 March 2014	30 September 2014		
226	24/3/2008	22/3/2013	3.70%	3 mth TIBOR +2.125%	300	N/A	N/A	N/A	226	Syndicated loan - 13th round	24/3/2008	22/3/2013	3 mth TIBOR +2.125%	300	N/A	N/A	N/A		
325	18/3/2011	28/2/2014	3.25%	3 mth LIBOR +1.40%	600	500	N/A	N/A	325	Loan for construction of stores	18/3/2011	28/2/2014	3 mth LIBOR +1.40%	600	500	N/A	N/A		
372	28/9/2012	30/9/2015	2.90%	3 mth LIBOR +1.30%	N/A	N/A	150	100	372	Loan for working capital	28/9/2012	30/9/2015	3 mth LIBOR +1.30%	N/A	250	150	100		
389	29/3/2013	31/3/2016	2.70%	3 mth LIBOR +1.24%	N/A	N/A	340	260	389	Loan for working capital	29/3/2013	31/3/2016	3 mth LIBOR +1.24%	N/A	500	340	260		
410	30/9/2013	30/9/2016	2.60%	3 mth LIBOR +1.17%	N/A	N/A	420	340	410	Loan for working capital	30/9/2013	30/9/2016	3 mth LIBOR +1.17%	N/A	N/A	420	340		
424	28/2/2014	28/2/2018	2.60%	3 mth LIBOR +1.25%	N/A	N/A	400	350	424	Loan for construction of stores	28/2/2014	28/2/2018	3 mth LIBOR +1.25%	N/A	N/A	400	350		
426	31/3/2014	31/3/2017	2.55%	3 mth LIBOR +1.19%	N/A	N/A	300	250	426	Loan for working capital	31/3/2014	31/3/2017	3 mth LIBOR +1.19%	N/A	N/A	300	250		
427	30/12/2014	31/3/2021	2.5%	3 mth TIBOR + 1.8%	N/A	N/A	N/A	480	427	Loan for construction of stores	26/3/2014	31/3/2021	3 mth TIBOR +1.8%	N/A	N/A	N/A	650		
442	30/9/2014	29/9/2017	2.57%	3 mth LIBOR +1.21%	N/A	N/A	N/A	300	442	Loan for working capital	30/9/2014	29/9/2017	3 mth LIBOR +1.21%	N/A	N/A	N/A	300		

Note:

(1) The notional amount of a swap and the loan balance of a loan is shown as "N/A" when the loan had not been entered into or already expired at that period/year and date.

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The table below shows the gain and loss arising from movements in fair value and net interest expenses arising from interest rate swaps during the indicated periods:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
Gain/(loss) from interest rate swaps arising from:					
- movement in fair value . . . . .	44	11	(4)	(3)	10
- net interest expenses . . . . .	<u>(55)</u>	<u>(33)</u>	<u>(28)</u>	<u>(16)</u>	<u>(13)</u>
Total . . . . .	<u><u>(11)</u></u>	<u><u>(22)</u></u>	<u><u>(32)</u></u>	<u><u>(19)</u></u>	<u><u>(3)</u></u>

Given our view on the continuously stagnant Japanese economy and the quantitative easing programs implemented by major central banks (including The Bank of Japan) around the world over the past few years and recently, we did not consider it to be necessary to hedge our interest rate exposure arising out of our floating rate long-term bank borrowings during the Track Record Period, nor do we consider such to be necessary in the near future until the Japanese economy is able to show more signs of sustainable growth. For details of the maturity profile of the non-current portion of our long-term bank borrowings, see “—Indebtedness—Borrowings—non-current portion” in this section above.

Nevertheless, during the Track Record Period, certain financial institutions bundled an interest rate swap as an integral part of the loans extended to us. We note that, with the interest rate swap, our cost of borrowings for such loans, on average, would increase by approximately 1% per annum throughout their term. However, for the sake of maintaining good relationships with our bankers, we found it acceptable to enter into such interest rate swap transactions as advised by our bankers. As at 30 September 2014, approximately 25% of the outstanding balance of long term bank borrowings was hedged with interest rate swaps.

### Inventory

The table below shows our inventory as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Pachinko and pachislot machines . . . . .	407	65	16	34
Others . . . . .	<u>5</u>	<u>21</u>	<u>5</u>	<u>6</u>
	<u><u>412</u></u>	<u><u>86</u></u>	<u><u>21</u></u>	<u><u>40</u></u>
Inventory turnover days (Note) . . . . .	<u><u>0.41</u></u>	<u><u>0.38</u></u>	<u><u>0.08</u></u>	<u><u>0.06</u></u>

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*Note:* Inventory turnover days are calculated based on the average of the beginning and ending inventory balance of a given year/period divided by the total gross pay-ins of our Group, and multiplied by 365 days for year ended 31 March 2012, 2013 and 2014, and by 183 days for the six months ended 30 September 2014.

Our inventory mainly included pachinko and pachislot machines not yet installed. The decrease in the balance of pachinko and pachislot machines as at 31 March 2013 by ¥326 million was mainly due to delivery of a large batch of machines worth around ¥400 million but remained uninstalled as at 31 March 2012. All of such machines were subsequently installed into our halls and therefore the cost of such machines have been charged to our hall operating expenses.

Our inventory turnover days were low as we do not require significant amount of inventory to operate our business. Our inventory turnover days were less than 1 day for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014.

For the inventory as at 30 September 2014, all except ¥1 million were subsequently used up by 31 January 2015.

### Trade receivables

Our pachinko and pachislot business does not generate any trade receivables as all our customers are required to pay for the pachinko balls and pachislot tokens when rented. Our trade receivable mainly represents balances due from vending machine operators for the concession income from vending machines, which usually amounted to up to 40% of the gross receipts of such machines. We typically offer credit period of 0-30 days to our vending machine operators. In respect of adopting a new vending machine operator, we will normally assess its credit worthiness by conducting company searches. We monitor closely our outstanding trade receivables and will issue written reminders to follow-up with our customers if trade receivable balances become long outstanding.

Our trade receivables balance remained stable in the Track Record Period. It amounted to ¥60 million, ¥64 million, ¥54 million and ¥52 million for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014. The table below shows our trade receivables as at the indicated dates:

	As at 31 March			As at
	2012	2013	2014	30 September 2014
	¥million	¥million	¥million	¥million
Trade receivables . . . . .	65	69	59	57
Less: provision for impairment of trade receivables . . . . .	(5)	(5)	(5)	(5)
	<u>60</u>	<u>64</u>	<u>54</u>	<u>52</u>

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The table below shows the ageing analysis of our trade receivables based on invoice date:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥million	¥million	¥million	¥million
Less than 30 days .....	57	61	51	49
31-90 days .....	—	—	—	—
Over 90 days .....	8	8	8	8
	65	69	59	57
Debtor turnover days (Note) .....	25.2	30.3	30.6	32.2

*Note:* Our trade receivables represent the receivables from vending machines operators. The debtor turnover days are calculated based on the average of beginning and the ending trade receivables balance (net of provision for impairment of trade receivables) of a given year/period divided by our vending machine income, and multiplied by 365 days for year ended 31 March 2012, 2013 and 2014, and by 183 days for the six months ended 30 September 2014.

Our debtor turnover days were stable in the Track Record Period and amounted to 25.2 days, 30.3 days, 30.6 days and 32.2 days for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014, which aligned with the credit period we offered to vending machine operators.

For our trade receivables, the maximum exposure to credit risk at the reporting date is the carrying value of such receivables mentioned above. We do not hold any collateral as security in respect of our trade receivables. Our policy for impairment loss on trade receivables is based on an evaluation of evidence of impairment, including collectability and ageing analysis of the receivables, on both individual and collective basis, which requires the use of judgment and estimates. We make provisions for receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. Our management closely review the trade receivable balances and any overdue balances on an ongoing basis and assessments are made by our management on the collectability of overdue balances. In 2011, we recognised a provision for impairment of ¥5 million of trade receivable balances due from a vending machines operator in which we were unable to collect.

Save as mentioned above, we have not made any provision for allowance for doubtful debts and any impairment on the trade receivables during the Track Record Period and up to Latest Practicable Date.

As at 31 January 2015, all of our trade receivables as at 30 September 2014 were settled.

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### Trade Payables

Our trade payables mainly represent payables to suppliers of general prize. The table below shows the ageing analysis of our trade receivables as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Less than 30 days . . . . .	164	213	112	62
31-90 days . . . . .	183	169	89	83
	347	382	201	145
Creditor's turnover days <sup>(1)</sup> . . . . .	0.37	0.55	0.45	0.35
Adjusted creditor's turnover days <sup>(2)</sup> . . . . .	42.6	66.7	56.1	33.5

*Notes:*

- (1) Creditor's turnover days are calculated based on (i) the average of the beginning and ending trade payable balances of a given year/period; (ii) divided by our gross pay-ins for the corresponding year/period and (iii) multiplied by 365 days for years ended 31 March 2012, 2013 and 2014 and by 183 days for the six months ended 30 September 2014.
- (2) Adjusted creditor's turnover days are calculated based on: (i) the average of the beginning and ending trade payable balances (entirely related to general prize suppliers) of a given year/period; (ii) divided by the total costs of general prizes redeemed for the corresponding year/period; and (iii) multiplied by 365 days for the years ended 31 March 2012, 2013 and 2014 and by 183 days for the six months ended 30 September 2014.

We are generally required to settle our purchases to G-prize wholesaler by cash upon delivery of the G-prize, as such there were no trade payables to G-prize suppliers in the Track Record Period. General prize supplier usually allows credit period up to 60 days. Our adjusted creditor turnover days (showing the average days of turnover of our trade payables in respect of cost of general prize exchanged) remained at similar level to credit period offered in the Track Record Period as it is our practice to settle trade payable balances according to credit terms offered.

As at 31 January 2015, all of our trade payables as at 30 September 2014 have been settled.

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### Accruals, provision and other payables

The table below shows the accruals, provisions and other payables as at the indicated dates:

	As at 31 March			As at 30-Sep
	2012	2013	2014	2014
	(¥, in millions)			
<b>Non-current portion</b>				
Provision for reinstatement costs . . . . .	1,141	1,267	1,320	1,337
Vending machine rental deposit and rental receipt in advance . . . . .	96	111	105	105
Other payables and provision for long service payment . . . . .	43	52	60	59
	<u>1,280</u>	<u>1,430</u>	<u>1,485</u>	<u>1,501</u>
<b>Current portion</b>				
Accrued expenses . . . . .	1,490	1,450	837	2,369
Other payables . . . . .	1,465	1,513	1,016	1,215
Vending machine rental receipt in advance . . . . .	280	261	276	230
Unutilised balls and tokens . . . . .	342	360	215	511
	<u>3,577</u>	<u>3,584</u>	<u>2,344</u>	<u>4,325</u>

Provision for reinstatement cost represents the provision for cost to reinstate rental premises into its original conditions upon termination of lease. The amount of provision was spread evenly across the lease term as stated in the rental contract. The increase of provision for reinstatement cost in the Track Record Period was mainly due to the increase in our rented hall properties for opening new halls as part of our expansion plan.

Vending machine rental deposits and rental receipt in advance represent the advances and deposits received from the vending machine operators. We generally require the vending machine operators to prepay their rent at the inception of their lease of the vending machine slots (usually for 3 years). The balance remained stable in the Track Record Period.

Accrued expenses represent (i) accrual for the purchases of pachinko and pachislot machines which has been delivered; (ii) accrual for the purchases of property, plant and equipment which has not yet been billed by the suppliers; and (iii) accrued staff benefits. The amount remained stable from 31 March 2012 to 31 March 2013. The decrease from ¥1,450 million as at 31 March 2013 to ¥837 million as at 31 March 2014 followed by an increase to ¥2,369 million as at 30 September 2014 was mainly due to the retirement payments of ¥600 million each paid to Mr. Masataka TANIGUCHI and Mr. Tatsuo TANIGUCHI in the year ended 31 March 2013 and in the six months ended 30 September 2014, respectively. The increase in accrued expenses as at 30 September 2014 was also due to the increase in accrual for purchases of pachinko and pachislot machines of ¥546 million as compared to the prior year.

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Other payables mainly represent (i) payables due to suppliers for office consumables and services; (ii) payables for fixed property tax; (iii) payables for utilities; and (iv) insurance premium payable. The decrease of balance from ¥1,513 million as at 31 March 2013 to ¥1,016 million as at 31 March 2014 was mainly due to the decrease of provisions for office services consumables and of ¥287 million. The balance remained stable at the end of other period/year.

The balance of unutilised balls and tokens represents the monetary value of ball and tokens stored in membership cards. According to the terms of our membership card, we allow our members to store a maximum of 999,999 balls and 199,999 tokens in their membership card which they can use to play pachinko and pachislot games and redeem general prizes and G-prizes, and there is no expiry for such balls and tokens. The monetary amount of such unutilised balls and tokens remained stable from 31 March 2012 to 31 March 2013. The amount decreased to ¥215 million as at 31 March 2014 and subsequently bounced back to ¥511 million as at 30 September 2014, as our customers delayed their redemption of G-prizes with their unutilised balls after we implemented mark-ups on G-prizes with effect from 1 April 2014, which gave rise to an increase in the unutilised balls and tokens. See “— Financial Metrics of Our Business” in this section above for further details on unutilised balls and tokens.

### PROPERTY INTEREST AND PROPERTY VALUATION

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued certain interests of our properties in Japan as at 31 January 2015 and is of the opinion that the value was, in aggregate, ¥1,452 million, with the entire value attributable to us. The full text of the letter, summary of valuation certificates with regard to such property interests are set forth in “Appendix III — Valuation Report on Selected Property Interests” to this Prospectus.

The statement below shows the reconciliation of aggregate amounts of certain properties as selected in our audited consolidated financial information as at 30 September 2014 as set forth in “Appendix I — Accountant’s Report” to this Prospectus with the valuation of these properties as at 31 January 2015 as set forth in “Appendix III — Valuation Report on Selected Property Interests” to this Prospectus.

	<u>¥ (million)</u>
<b>Net book value of the following properties as at 30 September 2014 .</b>	
- Freehold land and buildings included in investment properties <sup>(1)</sup> . . . . .	669
- Freehold land and buildings included in property, plant and equipment <sup>(2)</sup> . .	<u>536</u>
Total . . . . .	1,205
Movements during the period from 1 October 2014 to 31 January 2015 <sup>(3)</sup> . .	<u>(11)</u>
Net book value as at 31 January 2015 . . . . .	1,194
Net valuation surplus . . . . .	<u>258</u>
Valuation of properties owned by our Group as at 31 January 2015 as set out in the property valuation report in Appendix III to this Prospectus . . . .	<u><u>1,452</u></u>



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## FINANCIAL INFORMATION

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*Notes:*

- (1) Freehold land and buildings included in investment properties represents the property interests in Nomurasyoken Building and Nikku Club Omori Building and the parcel of land these buildings sit on respectively.
- (2) Freehold land and buildings included in property, plant and equipment represents the property interests in Koriyama City Hotel and the parcel of land it sits on.
- (3) Movements for the period from 1 October 2014 to 31 January 2015 represented the depreciation of ¥4 million and ¥7 million of buildings included in investment properties and property, plant and equipment, respectively.

### SELECTED KEY FINANCIAL RATIOS

	As at 31 March			As at 30 September
	2012	2013	2014	2014
Current ratio <sup>(1)</sup> . . . . .	0.93	0.92	1.34	1.08
Quick ratio <sup>(2)</sup> . . . . .	0.90	0.91	1.33	1.07
Gearing ratio (%) <sup>(3)</sup> . . . . .	101.4	98.7	91.7	100.4
Debt to equity ratio (%) <sup>(4)</sup> . . . . .	33.9	60.0	53.2	52.5
Return on total assets (%) <sup>(5)</sup> . . . . .	7.4	8.9	7.9	3.8*
Return on equity (%) <sup>(6)</sup> . . . . .	17.9	21.1	17.0	9.0*
Interest coverage <sup>(7)</sup> . . . . .	9.7	10.9	9.8	7.0

*Notes:*

\* Profit attributable to shareholders used for calculation is annualised based on the actual results for the six months ended 30 September 2014 as to be comparable with annual data.

- (1) Current ratio is calculated by dividing current assets with current liabilities as at the respective year/period end.
- (2) Quick ratio is calculated by dividing current assets (less inventory) with current liabilities as at the respective year/period end.
- (3) Gearing ratio is calculated by dividing the (i) aggregate of interest-bearing loans, (ii) shareholder's loans and (iii) obligations under finance leases and (iv) amount due to related company with the total equity as at the respective year/period end times 100%.
- (4) Debt to equity ratio is calculated by dividing the net debt (being the total debt less cash and cash equivalents) with total equity as at the respective year/period end times 100%.
- (5) Return on total assets is calculated by dividing profit attributable to shareholders for the year or period with the total assets as at the respective year or period end times 100%.
- (6) Return on equity is calculated by dividing profit attributable to shareholders for the year or period with the total equity as at the respective year or period end times 100%.
- (7) Interest coverage is calculated by dividing profit before interest and tax with the finance cost for the corresponding year/period.

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### Current Ratio

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our current ratio was 0.93, 0.92, 1.34 and 1.08, respectively. Our current ratio remained stable from 31 March 2012 to 31 March 2013.

Our current ratio increased from 0.92 as at 31 March 2013 to 1.34 as at 31 March 2014 was mainly due to (i) an increase in cash and cash equivalents by ¥1,500 million as a result of the increase in borrowings (current and non-current portion), and (ii) a decrease in accruals, provisions and other payables primarily as a result of the one-off special retirement benefit to Mr. Masataka TANIGUCHI of ¥600 million was accrued in the year ended 31 March 2013 but not in the year ended 31 March 2014.

Our current ratio decreased from 1.34 as at 31 March 2014 to 1.08 as at 30 September 2014 was mainly due to the increase in current liabilities outpaced the increase in current assets in the six months ended 30 September 2014. The increase in current liabilities was mainly due to (i) an increase in current portion of borrowings by ¥964 million for the six month ended 30 September 2014, (ii) the accrued one-off special retirement benefit to Mr. Tatsuo TANIGUCHI which amounted to ¥600 million, (iii) an increase in obligation under finance lease by ¥555 million, and (iv) an increase in accrued purchases of pachinko and pachislot machines by ¥546 million for our new hall opened in November 2014. The increase in current assets was mainly due to the increase in cash and cash equivalents by ¥1,593 million as a result of the increase in total borrowings (current and non-current portion) for the six months ended 30 September 2014.

### Quick Ratio

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our quick ratio was 0.90, 0.91, 1.33 and 1.07, respectively. As our inventory merely represented 2.8%, 0.9%, 0.2% and 0.3% of our total current assets as at 31 March 2012, 2013 and 2014 and 30 September 2014, respectively, changes in our quick ratio was primarily due to the same reason as the changes in our current ratio discussed above.

### Gearing Ratio

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our gearing ratio was 101.4%, 98.7%, 91.7% and 100.4%, respectively. Our gearing ratio remained stable from 31 March 2012 to 31 March 2013.

Our gearing ratio decreased from 98.7% as at 31 March 2013 to 91.7% as at 31 March 2014 was mainly because the increase in total equity outpaced the increase in total debt in the year ended 31 March 2014. The increase in total equity was mainly due to the profit made for the year ended 31 March 2014, which amounted to ¥3,698 million. The increase in total debt was mainly due to the increase in total borrowings (current and non-current portion) and total obligation under finance leases (current and non-current portion) by ¥1,306 million and ¥1,067 million, respectively, in the year ended 31 March 2014.

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## FINANCIAL INFORMATION

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Our gearing ratio increased from 91.7% as at 31 March 2014 to 100.4% as at 30 September 2014 was mainly due to the increase in total borrowings (current and non-current portion) by ¥1,662 million, while equity remained relatively stable in the six months ended 30 September 2014.

### Debt to Equity Ratio

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our debt to equity ratio was 33.9%, 60.0%, 53.2% and 52.5%, respectively. Our debt to equity ratio increased from 33.9% as at 31 March 2012 to 60.0% as at 31 March 2013 was mainly due to the increase of net debt balance, while our equity balance remained relatively stable. The increase in our net debt balance was mainly due to the decrease in cash and cash equivalent primarily as a result of the cash outflow for the purchase of shares of Niraku Corporation and Nexia which amounted to ¥4,575 million.

Our debt to equity ratio decreased from 60.0% as at 31 March 2013 to 53.2% as at 31 March 2014 was mainly because the increase in total equity outpaced the increase in total debt in 31 March 2014. The increase in total equity was mainly due to the profit made for year ended 31 March 2014, which amounted to ¥3,698 million.

Our debt to equity ratio remained stable from 31 March 2014 to 30 September 2014.

### Return on Total Assets

For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our return on total assets was 7.4%, 8.9%, 7.9% and 3.8%, respectively. Our return on total assets increased from 7.4% for the year ended 31 March 2012 to 8.9% for the year ended 31 March 2013 was mainly due to (i) an increase in the profit made for the year by ¥436 million primarily as a result of the increase in revenue caused by the increase in our pachinko hall network from 50 halls as at 31 March 2012 to 52 halls as at 31 March 2013 under similar cost structure, and (ii) a decrease in our total assets primarily as a result of the decrease in cash and cash equivalent caused by the cash outflow for the purchase of shares of Niraku Corporation and Nexia which amounted to ¥4,575 million.

Our return on total assets decreased from 8.9% for the year ended 31 March 2013 to 7.9% for the year ended 31 March 2014 was mainly due to the increase in total assets primarily as the result of (i) an increase in our cash and cash equivalents by ¥1,500 million caused by the increase in total borrowings (current and non-current portion); (ii) an increase in our property, plant and equipment by ¥2,082 million caused by the increase in our pachinko hall network from 52 halls as at 31 March 2013 to 53 halls as at 31 March 2014 which was substantially financed by debt; and (iii) an increase in fair value of equity securities held by ¥665 million for the year ended 31 March 2014.

Our return on total assets decreased from 7.9% for the year ended 31 March 2014 to 3.8% for the six months ended 30 September 2014 was mainly due to (i) a decrease in our profit by ¥686 million primarily as a result of the one-off special retirement benefit to Mr. Tatsuo

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## FINANCIAL INFORMATION

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TANIGUCHI which amounted to ¥600 million, and (ii) an increase in our total assets primarily as a result of the increase in our cash and cash equivalent by ¥1,593 million caused by the increase in total borrowings (current and non-current portion) in the six months ended 30 September 2014 as compared to the same period in 2013.

### Return on Equity

For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our return on total equity was 17.9%, 21.1%, 17.0% and 9.0%, respectively. Our return on equity increased from 17.9% for the year ended 31 March 2012 to 21.1% for the year ended 31 March 2013 was mainly due to an increase in our profit by ¥436 million as a result of an increase of revenue caused by the increase in our pachinko hall network from 50 halls as at 31 March 2012 to 52 halls as at 31 March 2013 under similar cost structure, while our equity balance remained relatively stable.

Our return on equity decreased from 21.1% for the year ended 31 March 2013 to 17.0% for the year ended 31 March 2014 was mainly due to an increase in total equity as a result of the increase in fair value of equity securities (net of tax) realised through other comprehensive income which amounted to ¥433 million in the year ended 31 March 2014, while profit remained relatively stable for the year ended 31 March 2014.

Our return on equity decreased from 17.0% for the year ended 31 March 2014 to 9.0% for the six months ended 30 September 2014 was mainly due to a decrease in our profit by ¥686 million as a result of the one-off special retirement benefits to Mr. Tatsuo TANIGUCHI which amounted to ¥600 million.

### Interest Coverage

As at 31 March 2012, 2013 and 2014 and 30 September 2014, our interest coverage was 9.7, 10.9, 9.8 and 7.0, respectively. Our interest coverage increased from 9.7 to 10.9 for the year ended 31 March 2013 mainly due to an increase in net profit before interest and tax by ¥107 million primarily driven by the increase in our revenue from pachinko and pachislot hall operations in the year. The increase was also due to a decrease in finance cost by ¥71 million as our total borrowings (current and non-current portion) decreased by ¥1,156 million as at 31 March 2013 as compared to that as at 31 March 2012.

Our interest coverage decreased from 10.9 for the year ended 31 March 2013 to 9.8 for the year ended 31 March 2014 mainly due to a decrease in net profit before interest and tax by ¥448 million primarily driven by a decrease in our operating profit in the year. The decrease was also due to an increase in finance cost for ¥29 million as our total borrowings increased by ¥1,306 million from 31 March 2013 to 31 March 2014.

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## FINANCIAL INFORMATION

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Our interest coverage decreased from 9.8 for the year ended 31 March 2014 to 7.0 for the six months ended 30 September 2014. The decrease was mainly due to a decrease in our profit before interest and tax by ¥1,127 million compared to that for the six months ended 30 September 2013 (or decrease in annualised profit before interest and tax for ¥2,902 million compared to the year ended 31 March 2014) as a result of the one-off special retirement benefits to Mr. Tatsuo TANIGUCHI which amounted to ¥600 million.

### WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including borrowings and internally generated funds, and the estimated net proceeds of the Global Offering, our Group has sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this Prospectus.

### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 35 to the accountant's report in Appendix I to this Prospectus, our Directors confirmed that these transactions were conducted on an arm's length basis and normal commercial terms. The effect of such related party transactions would not distort the track record to the extent that the historical results of our Group are not reflective of its performance.

### DECREASE IN NET PROFIT FOR SIX MONTHS ENDED 30 SEPTEMBER 2014 AS COMPARED TO SIX MONTHS ENDED 30 SEPTEMBER 2013

Our net profit after tax attributable for the six months ended 30 September 2014 has decreased by 42.2% as compared to six months ended 30 September 2013. The decrease in net profit was mainly due to the effects of the following one-off items:

- (1) listing expenses of ¥226 million recognised as expenses in our consolidated statements of comprehensive income; and
- (2) retirement payment of ¥600 million made to Mr. Tatsuo TANIGUCHI (谷口龍雄) during the six months ended 30 September 2014 for his retirement as a Director of our Company in the same period.

See “— Listing Expenses” in this section below for listing expenses that will be charged after 30 September 2014.

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## FINANCIAL INFORMATION

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### LISTING EXPENSES

The estimated total listing expenses (assuming an Offer Price of HK\$1.19 per Offer Share, being the mid-point of our indicative Offer Price range of HK\$1.10 to HK\$1.28 and that the Over-allotment Option is not exercised) incurred or to be incurred in relation to the Global Offering are approximately ¥1,149 million (approximately HK\$76 million), of which approximately: (1) ¥340 million (approximately HK\$22 million) is directly attributable to the issue of new Shares in the Global Offering and to be accounted for as a deduction from equity; and (2) ¥809 million (approximately HK\$54 million) is to be charged as administrative expenses to our profit and loss accounts for the year ending 31 March 2015. Out of this amount, approximately ¥226 million (approximately HK\$15 million) had been charged to our profit and loss account for the six months ended 30 September 2014, and a further amount of approximately ¥583 million (approximately HK\$39 million) is expected to be charged to our profit and loss account as administrative and other operating expenses for the six months ending 31 March 2015.

### DISTRIBUTABLE RESERVES

Our Company was incorporated in Japan on 10 January 2013. As at 30 September 2014, there was ¥2,748 million distributable reserves (calculated according to the relevant provisions as set out in the Japan Companies Act) available for distribution to our shareholders. See “Appendix V – Summary of Our Articles of Incorporation and Japan Corporation Law – 6. Dividends and Distributions – Distributable amount” for further details on calculation of amounts of distributable reserves.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT OUR FINANCIAL RISKS

#### Cash Flow and Fair Value Interest Rate Risk

Our interest rate risk mainly arises from bank balances and borrowings which are carried at variable rates, which expose us to interest rate risk.

As at 31 March 2012, 2013 and 2014, and as at 30 September 2014, if interest rates were to increase or decrease by 25 basis points and all other variables were held constant, our Group’s pre-tax profit would decrease or increase by approximately ¥3 million, ¥6 million, ¥5 million and ¥6 million, respectively, as a result of increase or decrease in net interest expense.

We manage our interest rate exposure with a focus on reducing (i) our overall debt balance; and (ii) exposure to changes in interest rates. When considered appropriate, we may use derivatives such as interest rate swaps to manage our interest rate exposure.

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## FINANCIAL INFORMATION

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### Price Risk

Our Group is exposed to equity securities price risk because of investments in listed securities held by us which are classified in the consolidated statements of financial position as fair value through other comprehensive income.

As at 31 March 2012, 2013 and 2014, and as at 30 September 2014, if the share prices of our listed investments to increase or decrease by 5% and all other variables were held constant, the impact on our Group's equity would increase or decrease by approximately ¥7 million, ¥45 million, ¥79 million and ¥73 million, respectively.

### Credit Risk

Credit risk arises mainly from cash deposited at banks, trade receivables, deposits and other receivables, financial assets at fair value through profit or loss and through other comprehensive income.

In respect of cash deposited at banks and financial assets at fair value through profit or loss and through other comprehensive income, the credit risk is considered to be low as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Approximately 99% of our Groups revenue is received in cash. Our Group's credit risk mainly arises from vending machine income receivable from vending machines providers representing approximately 1% of our receivables.

As at 31 March 2012, 2013 and 2014 and as at 30 September 2014, top five customers which are all vending machine providers of our Group accounted for approximately 58%, 53%, 56% and 60%, respectively, of the trade receivables of our Group. We have set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers. Management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. Our historical records in collection of trade and other receivables confirmed that adequate provision for uncollectible receivables has been made in the Financial Information.

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### Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of facilities from banks and the ability to repay such debts.

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets and receivables; and long term financing including long-term borrowings. The Group aims to maintain flexibility in funding by keeping sufficient bank balances and committed credit lines available.

See the table included in note 3.1(c) of the Accountant's Report in Appendix I for an analysis of our non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying balances as the impact of discounting is not significant.

### DIVIDEND POLICY

During the Track Record Period we declared and paid dividends in the amount of ¥110 million, ¥110 million, ¥183 million and ¥183 million for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014, respectively.

Our distribution of dividends will be subject to the availability of Distributable Amount and compliance with applicable laws and regulations in Japan and Hong Kong. We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends will be formulated by our Board at their discretion. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital expenditure requirements, the size of our Distributable Amount (calculated according to the relevant provision under the Japan Companies Act), our Articles, the Japan Companies Act and any other applicable Japan law and regulations (as discussed below) and other factors that our Directors may consider relevant. See "Appendix V – Summary of Our Articles of Incorporation and Japan Corporation Law – 6. Dividends and distributions". We currently intend to recommend dividends totalling approximately 30% of our consolidated net profit after tax attributable to our shareholders (calculated in accordance with IFRS) from the year ending 31 March 2016 onwards, to be distributed on an interim and year-end basis. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements, availability of Distributable Amount and any other conditions that our Directors may deem relevant. There is no assurance that dividends of any amount will be declared or distributed in any year. You should note that historical dividend distributions are not indicative of our future dividend policy.



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Pursuant to the Japan Companies Act and our Articles of Incorporation, through a resolution of the Board of Directors unless such dividend is proposed to be paid in kind (other than Shares, bonds (including convertible bonds) and SARs issued by our Company, which the Companies Act prohibits) without giving Shareholders the right to demand distribution in cash (in which case a special Shareholder resolution is required)), we may declare dividends to our Shareholders subject to a limit equal to the Distributable Amount. Pursuant to the Japan Companies Act and the relevant Ordinance of the Ministry of Justice of Japan, the Company's Distributable Amount is calculated based on the retained earnings recorded in the Company's financial statements prepared in accordance with JGAAP (rather than IFRS) with certain adjustments (including the deduction of the book value of any treasury Shares held by our Company). See "Appendix V — Summary of Our Articles of Incorporation and Japan Corporation Law — 6. Dividends and distributions — Distributable Amounts" in Appendix V. Going forward, Shareholders that are entitled to receive cash dividends (if any) from our Company will have the option of receiving their entitlements in either Japanese Yen or Hong Kong dollars, except for CCASS Beneficial Owners, who will receive dividend payments in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable. Scrip dividends in the form of Shares, bonds (including convertible bonds) or SARs issued by our Company are prohibited under the Japan Companies Act.

We are required under Japan law to withhold tax prior to payment of dividends. Our Tax Adviser has advised us that shareholders interested in less than 3% of our total number of issued Shares that are non-residents individuals of Japan or non-Japanese corporations without a permanent establishment in Japan are subject to Japanese withholding tax of 15.315% for any dividend distributions due and paid on or before 31 December 2037. Shareholders holding 3% or more of our total number of issued Shares are subject to a withholding tax in Japan of 20.420% on or before 31 December 2037. Shareholders who are either residents in Hong Kong or corporations established in Hong Kong without any permanent establishment in Japan are entitled to a reduced withholding tax rate of not exceeding 10% (or not exceeding 5% for corporate Shareholders who are interested in 10% or more of our total number of issued Shares for six consecutive months ending on the record date for dividend distribution) under the Hong Kong-Japan Tax Treaty. See "Key Japan Legal and Regulatory Matters — E. Taxation — 1. Withholding Tax on Dividend Payment" for further information on Japanese withholding taxes.

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## FINANCIAL INFORMATION

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### UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the shareholders of our Company as of 30 September 2014 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the Global Offering been completed as at 30 September 2014 or at any future dates.

Audited consolidated net tangible assets of our Group attributable to the shareholders of the Company as at 30 September 2014 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to the shareholders of the Company	Unaudited pro forma adjusted net tangible assets per Share (Notes 3, 5)	¥	HK\$
¥ million	¥ million	¥ million	¥		
Based on an Offer Price of HK\$1.10 per Share . . . . .	<u>20,707</u>	<u>4,087</u>	<u>24,794</u>	<u>20.7</u>	<u>1.37</u>
Based on an Offer Price of HK\$1.28 per Share . . . . .	<u>20,707</u>	<u>4,884</u>	<u>25,591</u>	<u>21.4</u>	<u>1.41</u>

*Notes:*

- (1) The unadjusted audited consolidated net tangible assets of our Group attributable to the shareholders of the Company as at 30 September 2014 is extracted from the accountant's report set out in Appendix I to this Prospectus, which is based on the audited consolidated net assets of our Group attributable to the shareholders of our Company as at 30 September 2014 of ¥20,879 million with an adjustment for the intangible assets as at 30 September 2014 of ¥172 million.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.10 and HK\$1.28 per Share, respectively, after deduction of the underwriting fees and other related expenses borne by the Company (excluding approximately ¥226 million listing expenses which have been incurred as of 30 September 2014) and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

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## FINANCIAL INFORMATION

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- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,195,850,460 Shares were in issue assuming that the Global Offering have been completed on 30 September 2014 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 30 September 2014.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Japanese Yen are converted into Hong Kong dollars at the rate of HK\$1.00 to ¥15.15.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had our Shares been listed on the Stock Exchange.

### NO MATERIAL ADVERSE CHANGE

Save as disclosed in this Prospectus, including in “Summary — Recent Developments”, our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 30 September 2014 (the date of the latest audited consolidated financial information of our Group) and up to the date of this Prospectus. Also, as far as our Directors are aware, there has also been no material change in the general economic or market conditions in Japan that would have a material and adverse impact on our business operation or financial condition since 30 September 2014 to the date of this Prospectus.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OVERVIEW

Immediately upon completion of the Global Offering, members of the Taniguchi Consortium will collectively be interested in approximately 69.5% of our total number of issued Shares. Because each member of the Taniguchi Consortium is acting in concert with each other, they will together be entitled to exercise and control the voting power in the general meetings of our Company attached to these Shares and will collectively be regarded as our Controlling Shareholders under the Listing Rules. For further details of the identities of, and relationship among, each member of the Taniguchi Consortium as well as their respective shareholdings in our Company, see “History and Corporate Development – Shareholding Structure – Taniguchi Consortium”.

The Taniguchi Consortium comprises (i) our Chairman, who, as an Executive Director and our Chief Executive Officer, is chiefly responsible for our overall business strategy and operational direction; (ii) Mr. Tatsuo TANIGUCHI (谷口龍雄), Mr. Masataka TANIGUCHI (谷口晶貴), Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as Mr. JEONG Jungwung), Mr. Mitsuhiro TEI (鄭允碩), Mr. Motohiro TEI (鄭元碩), Ms. Eijun TEI (鄭盈順), Ms. Rika TEI (鄭理香) and Ms. Noriko KANESHIRO (金城徳子), each being a family member of our Chairman; and (iii) Jukki Limited\* (有限会社十起), Densho Limited\* (有限会社伝承), Echo Limited\* (有限会社エコー), Daiki Limited\* (有限会社大喜), Hokuyo Kanko Limited\* (有限会社北陽観光) and KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA), each being an investment holding entity owned and controlled by family members of our Chairman having no business activity. See “Directors and Senior Management – Board of Directors – Executive Director” for the biographical information and experiences of our Chairman.

None of our Controlling Shareholders is interested in any public company other than our Company.

### ***Controlling Shareholders acting in concert***

By virtue of their intricate family and shareholding relationship, each member of the Taniguchi Consortium is an associate of each other under the Listing Rules. In addition, over the course of our business history, each member of the Taniguchi Consortium has, in exercising and implementing the management and operations of our subsidiaries, been acting in concert with each other. Because we were a group of private entities in the past, the acting in concert arrangements were not formalised in writing.

On 9 December 2014, each member of the Taniguchi Consortium executed a confirmatory deed (the “*Deed of AIC Confirmation*”), whereby they have confirmed their acting in concert arrangements in the past as well as their intention to continue to act in the above manner upon Listing to consolidate their control over our Group until and unless the Deed of AIC Confirmation

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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is terminated in writing. The Deed of AIC Confirmation covers our Company and all of our subsidiaries and contains the following salient terms:

With respect to the businesses of our Company and our subsidiaries, the members of the Taniguchi Consortium have, pursuant to the Deed of AIC Confirmation, confirmed to each other that, for the entire duration when they were/are contemporaneously the shareholders of our Company and/or our subsidiaries:

- (a) they have agreed to, and shall continue until the termination of the Deed of AIC Confirmation to, consult each other and reach an unanimous consensus among themselves on such matters being the subject matters of any shareholders' resolution, prior to putting forward such resolution to be passed at any shareholders' meeting of our Company and our subsidiaries, and have historically voted on such resolutions in the same way;
- (b) they have centralised, and shall continue until the termination of the Deed of AIC Confirmation to centralise, the ultimate control and right to make final decisions with respect to their interests in the businesses and projects of our Company and our subsidiaries;
- (c) they have operated, and shall continue until the termination of the Deed of AIC Confirmation to operate, our Company and our subsidiaries as a single business venture.

On the basis of the provisions under the Deed of AIC Confirmation, members of the Taniguchi Consortium are regarded as persons acting in concert with each other within the meanings under the Takeovers Code, and are deemed to be entitled to exercise the voting powers attached to the Shares owned by each of them in the general meetings of our Company.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors are satisfied that our Group can function, operate and carry on our business, and is financially and operationally, independent of our Controlling Shareholders and their respective close associates based on the following reasons:

#### **1. No competition and clear delineation of business**

Our Directors, including our Independent Non-executive Directors, confirm that, none of our Controlling Shareholders, our Directors or any of their respective close associates have interests in any businesses other than our business which compete, or are likely to compete, either directly or indirectly, with our business and would require disclosure under Rule 8.10 of the Listing Rules.

Apart from their respective interests in our Group, which is their principal business venture, the only other material business interest of our Controlling Shareholders is the Excluded Group, which comprises NI and NUSA. As at the Latest Practicable Date, members of the Taniguchi Consortium were collectively interested in approximately 93.2% of the total number of shares issued by NI. NUSA is a wholly-owned subsidiary of NI.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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NI was incorporated in September 2014 as part of our Reorganisation as the holding entity of the Excluded Group. NUSA was incorporated in July 2014 initially as a wholly-owned subsidiary of Niraku Corporation but was transferred to NI as part of our Reorganisation. NI and NUSA were excluded from our Group as they engage in business activities that are completely unrelated to, and clearly delineated from, our principal business activities of pachinko and pachislot hall operations. See “History and Corporate Development – Corporate Structure and Development – Reorganisation” for the restructuring steps undergone by our Group as part of our Reorganisation.

Aside from the Las Vegas Property as detailed below, it is currently expected that NI will act as the holding entity of the prospective business ventures, if any, of the Taniguchi Consortium. These business ventures, if any, for which the Taniguchi Consortium had no concrete plan as at the Latest Practicable Date, will be subject to the Deed of Non-Competition and will not compete, directly or indirectly, with our pachinko hall operations.

### ***Las Vegas Property***

NI is an investment holding company with no business interest other than NUSA. The only business venture of NUSA is a 10% interest in a limited liability company incorporated in the state of Delaware in the U.S. acquired in February 2015. This company is a property holding company of the Las Vegas Property, which is a piece of land and the premises of a hotel and casino located in downtown Las Vegas, Nevada, the U.S.

The Las Vegas Property is leased to the operator of the said hotel and casino at a combination of fixed and contingent rent. According to the information provided by our Controlling Shareholders, the revenue of the Las Vegas Property was approximately USD12.9 million, USD35.7 million and USD31.9 million respectively, for the years ended 31 December 2011 and 2012 and the ten months ended 31 October 2013, and its net income (loss) was approximately (USD11.0 million), USD3.4 million and USD1.5 million, respectively, for the same periods. These financial figures are unaudited and prepared by an independent accountant appointed for the purpose of financial diligence in relation to NUSA’s investment into the Las Vegas Property.

NUSA acquired the 10% interests in the Las Vegas Property in February 2015 from an independent third party of our Company at a consideration of approximately USD8 million paid in cash.

As at the Latest Practicable Date, we did not operate any casino or gambling facility inside or outside Japan and had no operation in the U.S. Whilst we are the operator and owner of a hotel in Koriyama City (郡山市), Fukushima Prefecture (福島県), this hotel has no co-relation with casino operation and is located outside the U.S. As such, the Las Vegas Property is clearly delineated from our business because of their clearly separate and distinct business nature and different geographical locations.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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In particular, the Diet was previously examining a bill legalising the operations of casinos in Japan in 2014, though, as advised by our Japan Legal Adviser, this bill has since been discarded and there is no longer any formal legislative procedure to consider the legalisation of casino operations in Japan. Notwithstanding that we will consider progressively venturing into the operation of casinos in Japan if and when gambling is legalised in Japan, the Las Vegas Property is not expected to compete, either directly or indirectly, with us as our prospective future casino operations (if materialised) are expected to be conducted within Japan. We have no current intention to expand anywhere outside Japan. Any of our future business ventures will be subject to the Deed of Non-Competition.

The Excluded Group currently has no other business interest other than the Las Vegas Property.

### **2. Independence of management and directorship**

Our Company has a Board and members of senior management that function independently from our Controlling Shareholders and their respective close associates. Our Board is comprised of one Executive Director and four Independent Non-executive Directors. Our senior management consists of four Executive Officers and two other members. On the basis of the following reasons, our Directors believe that our Directors, Executive Officers and members of our senior management are able to manage our business independently of our Controlling Shareholders:

- (i) with four Independent Non-executive Directors out of a total of five Directors in our Board, which exceeds the requirements under the Listing Rules, there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving a conflict of interest and protect the interests of our independent Shareholders;
- (ii) all Executive Officers and members of our senior management are full-time employees of our Group and most have, for the entire or substantially the entire Track Record Period, undertaken senior management supervisory responsibilities in our business. The responsibilities of our senior management team include managing operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategies of our Group. This ensures the independence of the daily management and operations of our Group from those of our Controlling Shareholders;
- (iii) instances of actual or potential conflict have been identified (by virtue of the connected transactions regime under the Listing Rules) and minimised (by virtue of the Deed of Non-Competition);
- (iv) each of our Directors is aware of his fiduciary duties as a Director of our Company, which require, among other things, that he acts for the benefit and in the best interests of our Shareholders as a whole and does not allow any conflict between his duties as a Director and his personal interests to affect the performance of his duties as a Director;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (v) notwithstanding that our Chairman and Mr. Akinori OHISHI (大石明德), an Executive Officer, are both directors of NI and NUSA, they have no on-going executive or non-executive duties in the Las Vegas Property. In particular, the fellow shareholder of NUSA in the Las Vegas Property has the sole and exclusive right to manage the business and affairs of the Las Vegas Property and to make all related decisions under the relevant investment agreements. Hence, our Chairman and Mr. Akinori OHISHI (大石明德) will not be involved in the management of the Las Vegas Property, NI or NUSA and will devote their full-time capacity to take care of our Group's interests. All of our Executive Officers and members of our senior management will devote full-time capacity to our Group;
- (vi) there will be no continuing connected transaction between our Group and our Controlling Shareholders upon Listing. Any connected transactions between our Company and companies controlled by our Controlling Shareholders will be subject to the rules and regulations under the Listing Rules including rules requiring announcement, reporting and independent Shareholders' approval (where applicable);
- (vii) all of the businesses that are related to the operation of pachinko halls held by our Controlling Shareholders have been consolidated into our Group as part of our Reorganisation. Therefore, there is no competition that would adversely affect the management independence of our Group; and
- (vii) a number of corporate governance measures are in place to avoid any potential conflict of interests between our Company and our Controlling Shareholders, and to safeguard the interests of our independent Shareholders. See "— Corporate Governance Measures" in this section below for details.

Save and except for our Chairman's and Mr. Akinori OHISHI (大石明德)'s directorship in NI and NUSA, our Directors have confirmed that there is no overlap in the directors and senior management between our Company and our Controlling Shareholders and/or their respective close associates.

### 3. Operational independence

Our Company makes business decisions independently. On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent of our Controlling Shareholders and their respective close associates:

- (i) our Company is not reliant on trademarks owned by our Controlling Shareholders, or other companies controlled by our Controlling Shareholders;
- (ii) our Group is the holder of all relevant licenses material to the operation of our business and has sufficient capital, equipment and employees to operate our business independently;
- (iii) our Company has our own administrative and corporate governance infrastructure (including our own accounting, legal and human resources departments);



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (iv) all of the properties used as our principal place of business, offices premises and pachinko halls are either self-owned or leased from independent third parties by our Company or our subsidiaries;
- (v) all external services and/or procurement required by our Company or our subsidiaries are provided by and, if needed, can be easily sourced from, independent third parties; and
- (vi) our Company has established a set of internal control procedures to facilitate the effective operation of our business.

Based on the above-mentioned arrangements, our Directors are of the view that our Company will be able to operate independently of our Controlling Shareholders and their respective close associates.

#### **4. Related-party transactions between our Group and entities controlled by our Controlling Shareholders**

During the Track Record Period, certain entities controlled by our Controlling Shareholders entered into related party transactions with our Group in the ordinary course of our business and on normal commercial terms. Such related party transactions are disclosed in Note 35 to “Appendix I – Accountant’s Report”. Such transactions, if continued after the Listing, will constitute continuing connected transactions of our Company under the Listing Rules.

Our Directors confirm that all non-trade related party transactions with our Controlling Shareholders and their respective close associates will be discontinued upon Listing.

#### **5. Financial independence**

Our Directors are of the view that our Group will be financially independent of our Controlling Shareholders and any of their respective close associates upon Listing. All loans, advances and balances due to and from our Controlling Shareholders and their respective close associates (e.g., the shareholder loan) will be fully settled and that all share pledges and guarantees provided by our Controlling Shareholders and their respective close associates on our Group’s borrowing will be fully released upon Listing. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing. Our Directors are satisfied that we are capable of conducting our business independently of any of our Controlling Shareholders (including their respective close associates) after our Company is listed on the Stock Exchange.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### DEED OF NON-COMPETITION

#### Non-competition

For the purpose of the Listing, our Controlling Shareholders (as covenantors) and our Company have entered into the Deed of Non-Competition on 16 March 2015, pursuant to which each of our Controlling Shareholders has irrevocably undertaken to our Company (for itself and on behalf of each other member of our Group) that he/she/it would not, and would procure that his/her/its close associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on his/her/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any Restricted Business (whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person).

“*Restricted Business*” stated in the Deed of Non-Competition refers to any activity or business which competes, or is likely to compete, either directly or indirectly, with:

- (a) the pachinko and pachislot hall operations in Japan referred to in “Business”;
- (b) the operation of restaurants serving Spanish or Western cuisine in general in Japan;
- (c) operation of hotel(s) in Fukushima Prefecture (福島県), Japan; and
- (d) any other business from time to time conducted, engaged in or invested in by any member of our Group or which any member of our Group has otherwise publicly announced its intentions to conduct, enter into, engage in or invest in on the Stock Exchange pursuant to the Listing Rules and the SFO.

Each of our Controlling Shareholders has also undertaken to our Company the following:

- (a) to provide all information requested by our Company (including a quarterly update on their current business ventures in writing) which is necessary for the annual review by our Independent Non-executive Directors and the enforcement of the Deed of Non-Competition or a negative confirmation, as appropriate; and
- (b) to make an annual declaration on compliance with his/her/its undertaking under the Deed of Non-Competition in the annual reports of our Company as our Independent Non-executive Directors think fit and/or as required by the relevant requirements under the Listing Rules.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### New Opportunity

Our Controlling Shareholders have further undertaken to procure that, during the restricted period, any business investment or other commercial opportunity which competes or is likely to compete either directly or indirectly with the Restricted Business (the “*New Opportunity*”) identified by or offered to him/her/it or any entity controlled by him/her/it, is first referred to us in the following manner:

- (a) the relevant Controlling Shareholder is required to refer, or to procure the referral of, the New Opportunity to us, and shall give written notice (the “*Offer Notice*”) to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs; and
- (b) upon receiving the Offer Notice, our Company shall seek approval from a Board committee (comprising, among others, all the Independent Non-executive Directors who do not have an interest in the New Opportunity) (the “*Independent Board*”) as to whether to pursue or decline the New Opportunity. Any Director who has actual or potential interest in the New Opportunity shall not be a member of the Independent Board and shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, or count towards the quorum for, any meeting or part of a meeting convened to consider such New Opportunity;
  - (i) the Independent Board shall consider the financial impact of pursuing the New Opportunity offered, whether the nature of the New Opportunity is consistent with our Group’s strategies and development plans and the general market conditions; if appropriate, the Independent Board may appoint independent financial and legal advisers or other professional experts to assist at the cost of our Company, the decision-making process in relation to such New Opportunity;
  - (ii) the Independent Board shall, within 20 business days of receipt of the written notice referred to in (a) above, inform the relevant Controlling Shareholder in writing on behalf of our Company its decision whether to pursue or decline the New Opportunity. Such notice period can be extended if mutually agreed in writing;
  - (iii) the relevant Controlling Shareholder shall be entitled but not obliged to pursue such New Opportunity if he or she or it has received a notice from the Independent Board declining such New Opportunity or if the Independent Board failed to respond within such 20 business days period (or the extended period, where applicable) pursuant to (b)(ii) above; and

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (iv) if there is any material change in the nature, terms or conditions of such New Opportunity pursued by the relevant Controlling Shareholder, he or she or it shall refer such New Opportunity as so revised to our Company in the manner as outlined in the Deed of Non-Competition as if it were a New Opportunity.

Our Independent Board will also review, on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders, the results of which will be disclosed in our annual reports. Furthermore, the Independent Board may appoint financial advisors or professional experts to provide advice, at the cost of our Company, in connection with whether to take up any New Opportunity.

### Exceptions

The Deed of Non-Competition does not apply to:

- (a) any interests in the shares of any member of our Group since the business of such member is not in competition with our Group. Moreover, none of our Controlling Shareholders currently has any intention to hold shares directly in any member of our Group; or
- (b) interests in the shares of a company other than our Group which shares are listed on a recognised stock exchange provided that:
  - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
  - (ii) the total number of the shares held by the relevant Controlling Shareholder and/or his/her/its close associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Controlling Shareholder and his/her/its close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company (together, where appropriate, with its close associates) whose shareholdings in that company should be more than the total number of shares held by the Controlling Shareholder and his/her/its close associates in aggregate; or
- (c) any business in relation to the leasing of property interests (commercial, residential or otherwise) to third party tenants.

The "*restricted period*" stated in the Deed of Non-Competition refers to the period during which (i) the Shares of our Company remain listed on the Stock Exchange; (ii) the relevant Controlling Shareholder and his/her/its close associate holds an equity interest in our Company; and (iii) the relevant Controlling Shareholder and/or his/her/its close associates jointly or severally (whether pursuant to the Deed of AIC Confirmation or not) are entitled to exercise or control the

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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exercise of not less than 30% in aggregate of the voting power in the general meetings of our Company. In other words, if our Company was no longer listed on the Stock Exchange or the relevant Controlling Shareholder came to hold less than 30% of the Shares then issued, the Deed of Non-Competition would not apply. We believe the 30% threshold is justifiable as it is equivalent to the thresholds applied under the Listing Rules and the Takeovers Code for the concept of “control”.

### CORPORATE GOVERNANCE MEASURES

Our Company will further adopt the following measures to manage the conflict of interests arising from the possible competing business of our Controlling Shareholders and to safeguard the interests of our independent Shareholders:

- (i) in preparation for the Listing, our Company has amended our Articles to comply with the Listing Rules. In particular, our Articles provide that, except for certain exceptions permitted under the Listing Rules or the Stock Exchange, a Director shall not vote on any Board resolution approving any contract in relation to which he has a material interest, nor shall such Director be counted in the quorum present at that meeting. Furthermore, a Director who holds directorship and/or senior management positions in our Controlling Shareholders or any of its close associates (other than our Company or any member of our Group) shall not vote on any Board resolution regarding any transactions proposed to be entered into between any member of our Group and our Controlling Shareholders or any of its close associates (other than our Company or any member of our Group), nor shall such Director be counted in the quorum present at such meeting;
- (ii) we have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser, which will provide advice and guidance to us with respect to compliance with the applicable laws and the Listing Rules, including but not limited to various requirements relating to Directors’ duties and internal controls;
- (iii) our Independent Non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- (iv) each of our Controlling Shareholders has undertaken to provide all information necessary for the annual review by our Independent Non-executive Directors and the enforcement of the Deed of Non-Competition;
- (v) we will disclose decisions on matters reviewed by our Independent Non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition either through an annual report, or by way of announcement to the public;
- (vi) each of our Controlling Shareholders will make an annual declaration of compliance with the Deed of Non-Competition in the annual reports of our Company;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (vii) the management structure of our Group includes our Audit Committee, our Remuneration Committee and our Nomination Committee, the written rules of each of which will require them to be alert to prospective conflict of interests and to formulate their proposals accordingly;
- (viii) pursuant to the Corporate Governance Code set out in Appendix 14 of the Listing Rules, our Directors, including our Independent Non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's costs;
- (ix) each of the Controlling Shareholders undertakes to keep us informed and shall procure his/her/its respective close associates to keep us informed, of new business opportunities and to provide all information reasonably required by the Independent Non-executive Directors to assist them in their consideration of any new business opportunity; and
- (x) our Independent Non-executive Directors will also review, on an annual basis, the implementation of the Deed of Non-competition and any decisions in relation to new business opportunities referred to us, and state their basis and reasons in our Company's annual reports.

Our Company expects to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules which sets out principles of good corporate governance in relation to, among others, Directors, Chief Executive Officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communication with our Shareholders. Our Company will state in our interim and annual reports whether we have complied with such code, and will provide details of, and reasons for, any deviation from it in the corporate governance reports attached to our annual reports.

In the event that our Company decides not to proceed with any particular projects or business opportunities and that our Controlling Shareholders decides to proceed with such a project or business opportunity, we will announce such decision by way of an announcement setting out therein the basis for us not taking the project or the business opportunity.

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## SHARE CAPITAL

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### CAPITAL STRUCTURE

As at the Latest Practicable Date, our Company had a core capital\* (資本金) of ¥10 million. Our Company does not have any specific value of authorised and issued share capital as the concept of shares with par value has been abolished under the Japan Companies Act.

#### Authorised share capital

Immediately upon completion of the Global Offering, the total number of Shares authorised to be issued by our Company pursuant to our Articles will be 2,000,000,000 Shares.

#### Issued share capital

Assuming the Over-allotment Option is not exercised, the number of Shares issued by our Company immediately upon completion of the Global Offering will be as follows:

##### **Issued and to be issued:**

895,850,460	Shares in issue immediately prior to the completion of the Global Offering
<u>300,000,000</u>	Share to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option)
<b><u>1,195,850,460</u></b>	<b>Total</b>

Assuming the Over-allotment Option is exercised in full, the number of Shares issued by our Company immediately upon completion of the Global Offering will be as follows:

##### **Issued and to be issued:**

895,850,460	Shares in issue immediately prior to the completion of the Global Offering
<u>345,000,000</u>	Share to be issued pursuant to the Global Offering (including all Shares which may be issued under the Over-allotment Option)
<b><u>1,240,850,460</u></b>	<b>Total</b>

#### Assumptions

This table assumes the Global Offering has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account of any Shares which may be allotted and issued or repurchased by our Company under the Issuing Mandate and Repurchase Mandate granted to our Board as referred to below or otherwise.

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## SHARE CAPITAL

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### Ranking

The Offer Shares and the Shares that may be issued pursuant to the Over-allotment Option shall rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid thereafter.

### Treasury stock

As at the Latest Practicable Date, none of our issued Shares was a treasury stock\* (自己株式).

### GENERAL MANDATE TO ISSUE SHARES

Our Board has been granted with the Issuing Mandate to allot, issue and deal in an aggregate number of Shares that is no more than the sum of:

- (a) 20% of the total number of Shares issued by our Company immediately upon completion of the Global Offering; and
- (b) the aggregate number of Shares repurchased by our Company, if any, under the Repurchase Mandate referred to below.

The aggregate number of Shares which our Directors are authorised to allot and issue under the Issuing Mandate will not be reduced by the allotment and issue of Shares pursuant to (i) a rights issue; or (ii) any specific authority granted by our Shareholders in general meeting(s).

The Issuing Mandate will expire at the earliest of:

- (a) the conclusion of our Company's next AGM unless by ordinary resolution at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which our Company is required by the applicable Japan law or our Articles to hold our next AGM; or
- (c) when varied, revoked or renewed by a resolution of our Shareholders in a general meeting.

For the avoidance of doubt, the Issuing Mandate grants power to our Board to issue, allot and deal with Shares only and does not grant authority to issue SARs and dispose of treasury stock\* (自己株式). For further details of the Issuing Mandate, see "Appendix VI – Statutory and General Information – A. Further information about our Company – 5. Extraordinary general meeting held on 16 March 2015".



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## SHARE CAPITAL

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Under our Articles and the Japan Companies Act, the Issuing Mandate is only enforceable when (i) our total number of issued Shares will not exceed 2,000,000,000 Shares, which are the total number of Shares authorised to be issued by our Company, as a result of the issue and allotments made under the Issuing Mandate; and (ii) the allotments under the Issuing Mandate are not made at a price or on term(s) *especially favourable* to the allottees.

Our Directors have undertaken to the Stock Exchange not to exercise the Issuing Mandate if any of the aforementioned conditions has not been fulfilled, in which case they will seek specific approval from our Shareholders in order to issue and allot new Shares. For a detailed discussion on the Japan law provisions relating to the enforceability of the Issuing Mandate, see “Key Japan Legal and Regulatory Matters - D. Capital Structure - Issuing Mandate”.

We will comply with Rule 13.36 of the Listing Rules in relation to pre-emptive rights and the Issuing Mandate.

### GENERAL MANDATE TO REPURCHASE SHARES

Our Board has been granted with the Repurchase Mandate to exercise all the powers of our Company to repurchase an aggregate number of Shares that is no more than 10% of the total number of Shares issued by our Company immediately upon completion of the Global Offering.

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), subject to and in accordance with our Articles, all applicable laws and regulations in Japan and Hong Kong, and the requirements of the Listing Rules and any other stock exchange on which our securities may be listed, as amended from time to time. Further information required by the Stock Exchange to be included in this Prospectus regarding the repurchase of Shares is set out in “Appendix VI – Statutory and General Information – B. Repurchase of our Shares”.

The Repurchase Mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next AGM unless by ordinary resolution at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which our Company is required by the applicable Japan law or our Articles to hold our next AGM; or
- (c) when varied, revoked or renewed by a resolution of our Shareholders in a general meeting.

Upon Listing, repurchases on the Stock Exchange will be effected under the Repurchase Mandate granted to our Board by our Shareholders on 16 March 2015 in compliance with Rule 10.06 of the Listing Rules as market transactions etc.\* (市場取引等) as defined under the Japan Companies Act. Our Articles provide that repurchases of our own Shares can be effected through

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## SHARE CAPITAL

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a market transaction etc.\* (市場取引等) with a resolution of our Board (so long as such repurchases comply with the applicable requirements under the Listing Rules), allowing our Board to effect repurchases under the Repurchase Mandate without Shareholders' specific approval.

Based on the foregoing Articles and Japan law provisions, repurchases under the Repurchase Mandate must be market transactions etc.\* (市場取引等) as defined under the Japan Companies Act. There is no judicial precedent or interpretation confirming that a repurchase through the Stock Exchange, which is not a securities exchange in Japan, is a market transaction etc.\* (市場取引等). Given the lack of judicial precedent, our Directors have undertaken to the Stock Exchange that they will not exercise the Repurchase Mandate to repurchase our Shares on the Stock Exchange unless there is clear judicial authority allowing us to make repurchases on the Stock Exchange thereunder.

We will comply with the requirements in respect of the Repurchase Mandate under the Rule 10.06 of the Listing Rules.

### GENERAL MEETINGS AND CLASS MEETINGS

See "Appendix V — Summary of our Articles of Incorporation and Japan Corporation Law — 4. Transactions requiring Shareholders approval" for circumstances under which a resolution of our Shareholders are required under our Articles and/or the Japan Companies Act.

Under our Articles, our Company is not allowed to issue any class of shares other than our common Shares\* (普通株式). Our Articles therefore do not contain any provision as to the circumstances where a separate class meeting is required.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering, the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of shareholder	Capacity/ Nature of interest	Interests held immediately upon completion of the Global Offering	
		Number	Approximate percentage
Our Chairman	Beneficial interest <sup>(1)</sup>	224,480,460	18.8%
Tatsuo TANIGUCHI (谷口龍雄)	Beneficial interest; custodian <sup>(2)</sup>	223,790,000	18.5%
Masataka TANIGUCHI (谷口晶貴)	Beneficial interest; custodian <sup>(3)</sup>	151,570,000	12.7%
Yoshihiro TEI (鄭義弘) <sup>#</sup> (also known as JEONG Jungwung)	Beneficial interest; custodian <sup>(4)</sup>	98,440,000	8.3%
SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行)	Trustee <sup>(2), (3), (4)</sup>	229,137,500	19.1%
ESOA	Custodian <sup>(5)</sup>	61,870,000	5.2%
Seiai HATOYAMA (鳩山正愛)	Interest of a spouse <sup>(6)</sup>	224,480,460	18.8%
Hideko TANIGUCHI (谷口秀子)	Interest of a spouse <sup>(7)</sup>	223,790,000	18.5%
Eiko TANIGUCHI (谷口榮子)	Interest of a spouse <sup>(8)</sup>	151,570,000	12.7%
Keie TEI (鄭慶惠)	Interest of a spouse <sup>(9)</sup>	98,440,000	8.3%
Hidenori TANIGUCHI (谷口秀憲)	Interest of a child <sup>(10)</sup>	224,480,460	18.8%
Yuryon TANIGUCHI (谷口有鈴)	Interest of a child <sup>(10)</sup>	224,480,460	18.8%
Hirohide TANIGUCHI (谷口博秀)	Interest of a child <sup>(10)</sup>	224,480,460	18.8%
Yuri TANIGUCHI (谷口裕里)	Interest of a child <sup>(10)</sup>	224,480,460	18.8%

## SUBSTANTIAL SHAREHOLDERS

Name of shareholder	Capacity/ Nature of interest	Interests held immediately upon completion of the Global Offering	
		Number	Approximate percentage
Masahide TEI (鄭將英) <sup>#</sup> (also known as JEONG Jangyeong) . . . . .	Interest of a child; beneficial interest <sup>(11)</sup>	98,440,000	8.3%
Akinori TEI (鄭敬憲) <sup>#</sup> (also known as JEONG Kyeongheon) . . . . .	Interest of a child; beneficial interest <sup>(11)</sup>	98,440,000	8.3%

**Notes:**

- (1) The interests held by our Chairman shown above include 212,980,460 Shares held in his own name for his own benefit and 11,500,000 Shares held by Densho Limited\* (有限会社伝承), a company collectively wholly-owned by his children, the voting rights of which are exercisable by our Chairman.
- (2) The interests held by Mr. Tatsuo TANIGUCHI (谷口龍雄) shown above include (i) 161,690,000 Shares held in his own name for his own benefit, (ii) 19,320,000 Shares held by Jukki Limited\* (有限会社十起), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Tatsuo TANIGUCHI (谷口龍雄); (iii) 1,380,000 Shares held by KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA), a company collectively wholly-owned by our Chairman, Mr. Tatsuo TANIGUCHI (谷口龍雄) and Mr. Masataka TANIGUCHI (谷口晶貴), the voting rights of which are exercisable by Mr. Tatsuo TANIGUCHI (谷口龍雄); and (iv) 41,400,000 Shares held by the TT Family Trust for the benefit of his children, namely Ms. Yoshika TEI (鄭淑佳)<sup>#</sup> (also known as Ms. JEONG Sukka), Mr. Kousei TEI (鄭光誠)<sup>#</sup> (also known as Mr. CHONG Gangsong) and Mr. Kiyokazu TANIGUCHI (谷口清和). SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行) is the trustee and assignee\* (受託者) of the TT Family Trust and Mr. Tatsuo TANIGUCHI (谷口龍雄) is entitled to exercise the voting rights attached to the Shares under the TT Family Trust. The interests under the TT Family Trust are equally distributed among the three beneficiaries under the TT Family Trust.
- (3) The interests held by Mr. Masataka TANIGUCHI (谷口晶貴) shown above include (i) 11,442,500 Shares held in his own name for his own benefit; (ii) 5,750,000 Shares held by Hokuyo Kanko Limited\* (有限会社北陽観光), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Masataka TANIGUCHI (谷口晶貴); and (iii) 134,377,500 Shares held by the MT Family Trust for the benefit of his children, namely Mr. Tatsunari TANIGUCHI (谷口辰成)<sup>#</sup> (also known as Mr. CHONG Jinsong), Mr. Takanari TANIGUCHI (谷口喆成)<sup>#</sup> (also known as Mr. JEONG Cheolseong) and Mr. Toshinari TANIGUCHI (谷口才成)<sup>#</sup> (also known as Mr. CHUNG Jaeseong). SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行) is the trustee and assignee\* (受託者) of the MT Family Trust and Mr. Masataka TANIGUCHI (谷口晶貴) is entitled to exercise the voting rights attached to the Shares under the MT Family Trust. The interests under the MT Family Trust are equally distributed among the three beneficiaries under the MT Family Trust.
- (4) The interests held by Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) shown above include (i) 33,580,000 Shares held in his own name for his own benefit; (ii) 11,500,000 Shares held by Daiki Limited\* (有限会社大喜), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung); and (iii) 53,360,000 Shares held by the YT Family Trust for the benefit of his children, namely Mr. Akinori TEI (鄭敬憲)<sup>#</sup> (also known as JEONG Kyeongheon) and Mr. Masahide TEI (鄭將英)<sup>#</sup> (also known as JEONG Jangyeong). SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行) is the trustee and assignee\* (受託者) of the YT Family Trust and Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) is entitled to exercise the voting rights attached to the Shares under the YT Family Trust. The interests under the YT Family Trust are equally distributed among the two beneficiaries under the YT Family Trust.
- (5) The ESOA is the registered owner of 61,870,000 Shares held for the benefit of the members of the ESOA, who are current employees of our Group. The voting rights attached to the Shares held by the ESOA are exercisable by its president\* (理事長), currently Mr. Takashi ENDO (遠藤孝), who is not a core connected person of our Company.

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## SUBSTANTIAL SHAREHOLDERS

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- (6) Mrs. Seiai HATOYAMA (鳩山正愛) is the spouse of our Chairman and is therefore deemed to be interested in the Shares that our Chairman is interested in under the SFO.
- (7) Mrs. Hideko TANIGUCHI (谷口秀子) is the spouse of Mr. Tatsuo TANIGUCHI (谷口龍雄) and is therefore deemed to be interested in the Shares that Mr. Tatsuo TANIGUCHI (谷口龍雄) is interested in under the SFO.
- (8) Mrs. Eiko TANIGUCHI (谷口栄子) is the spouse of Mr. Masataka TANIGUCHI (谷口晶貴) and is therefore deemed to be interested in the Shares that Mr. Masataka TANIGUCHI (谷口晶貴) is interested in under the SFO.
- (9) Mrs. Keie TEI (鄭慶惠) is the spouse of Mr. Yoshihiro TEI (鄭義弘)# (also known as JEONG Jungwung) and is therefore deemed to be interested in the Shares that Mr. Yoshihiro TEI (鄭義弘)# (also known as JEONG Jungwung) is interested in under the SFO.
- (10) Mr. Hidenori TANIGUCHI (谷口秀憲), Ms. Yuryon TANIGUCHI (谷口有鈴), Mr. Hirohide TANIGUCHI (谷口博秀) and Ms. Yuri TANIGUCHI (谷口裕里) are the children of our Chairman under the age of 18 and are therefore deemed to be interested in the Shares that our Chairman is interested in under the SFO.
- (11) Ms. Masahide TEI (鄭將英)# (also known as JEONG Jangyeong) and Mr. Akinori TEI (鄭敬憲)# (also known as JEONG Kyeongheon) are the children of Mr. Yoshihiro TEI (鄭義弘)# (also known as Mr. JEONG Jungwung) under the age of 18 and are therefore deemed to be interested in the Shares that Mr. Yoshihiro TEI (鄭義弘)# (also known as Mr. JEONG Jungwung) is interested in under the SFO. In addition, they are the beneficiaries under the YT Family Trust.
- (12) Shareholding percentages are approximate and subject to rounding.

Save as disclosed in this Prospectus, our Directors are not aware of any persons who will, immediately following completion of the Global Offering, have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in the general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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## DIRECTORS AND SENIOR MANAGEMENT

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### GENERAL

#### Directors

The table below presents certain information in respect of the members of our Board:

Name	Age	Current Position/Title in our Group	Date of Joining our Group	Date of Appointment as a Director	Roles and Responsibilities
<b>Executive Director</b>					
Hisanori TANIGUCHI (谷口久徳) <sup>#</sup> (also known as Mr. JEONG Seonggi) <sup>(2)</sup> . . . . .	52	Chairman of the Board, Executive Director and Chief Executive Officer	1 April 1983	10 January 2013	Responsible for our overall corporate strategies, management and business development; member of our Nomination and Remuneration Committees
<b>Independent Non-executive Directors</b>					
Hiroaki MORITA (森田弘昭) . . . . .	78	Independent Non-executive Director	N/A <sup>(1)</sup>	25 June 2014	Supervising the overall management and business operations of our Group; chairman of our Nomination Committee and member of our Audit and Remuneration Committees
Norio NAKAYAMA (中山宣男) . . . . .	67	Independent Non-executive Director	N/A <sup>(1)</sup>	25 June 2014	Supervising the overall management and business operations of our Group; chairman of our Remuneration Committee and member of our Audit Committee
Masaharu TOGO (東郷正春) . . . . .	66	Independent Non-executive Director	N/A <sup>(1)</sup>	25 June 2014	Supervising the overall management and business operations of our Group; member of our Nomination Committee
Hiroaki KUMAMOTO (熊本浩明) . . . . .	46	Independent Non-executive Director	N/A <sup>(1)</sup>	28 November 2014	Supervising the overall management and business operations of our Group; chairman of our Audit Committee

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## DIRECTORS AND SENIOR MANAGEMENT

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*Notes:*

- (1) Except for our Chairman, all Directors of our Company are external Directors\* (社外取締役) under the Japan Companies Act. They are not employees of our Group and have no executive functions in our Group whatsoever.
- (2) Our Chairman is a brother of Mr. Tatsuo TANIGUCHI (谷口龍雄), a Controlling Shareholder, a member of our senior management and an associate of him under the Listing Rules. He is also a person acting in concert with him within the meanings of the Takeovers Code.

### Executive Officers

The table below presents certain information in respect of our Executive Officers:

Name	Age	Current Position/Title in our Group	Date of Joining our Group	Date of Appointment as an Executive Officer	Roles and Responsibilities
Hisanori TANIGUCHI (谷口久徳) <sup>#</sup> (also known as Mr. JEONG Seonggi) . . . . .	52	Chairman of the Board, Executive Director and Chief Executive Officer	1 April 1983	10 January 2013	Responsible for our overall corporate strategies, management and business development; member of our Nomination and Remuneration Committees
Akinori OHISHI (大石明徳) . . . . .	50	Executive Officer	1 April 2010	25 June 2014	Management of our Group's day-to-day operations
Hidenori MOROTA (諸田英模) . . . . .	49	Executive Officer	6 October 1988	28 November 2014	Oversight of our sales department; Director of Niraku Corporation
Mototaka TANAKA (田中基隆) . . . . .	48	Executive Officer	21 September 2012	28 November 2014	Oversight of our legal and corporate affairs; corporate records and general compliance with corporate and other relevant laws and regulations in Japan

*Note:*

- (1) The business address of all of our Executive Officers is our headquarters at 1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan

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## DIRECTORS AND SENIOR MANAGEMENT

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### Other senior management

The table below presents certain matters in respect of the members of our senior management (other than our Directors and Executive Officers):

<u>Name</u>	<u>Age</u>	<u>Current Position/Title in our Group</u>	<u>Date of Joining our Group</u>	<u>Date of Appointment as our senior management</u>	<u>Roles and Responsibilities</u>
Tatsuo TANIGUCHI (谷口龍雄) <sup>(1)</sup>	61	Representative director and president, Nexia	1 June 1974	19 June 2009	Oversight of our property activities
Tadashi UCHIYAMA (内山忠)	63	Statutory auditor, Niraku Corporation	24 June 2011	24 June 2011	Auditing the directors of Niraku Corporation in the proper execution of their duties

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Notes:

- (1) Mr. Tatsuo TANIGUCHI (谷口龍雄) is a brother of our Chairman and an associate of our Chairman under the Listing Rules. He is also a person acting in concert with our Chairman within the meanings of the Takeovers Code.
- (2) The business address of all of our senior management is our headquarters at 1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan

### BOARD OF DIRECTORS

Our Board of Directors is the primary decision-making body of our Company, setting fundamental business strategies and policies for the management and operation of our business and monitoring their implementation.

Our Board currently consists of five Directors, comprising one Executive Director and four Independent Non-executive Directors. Pursuant to our Articles and the Japan Companies Act, our Directors are elected by our Shareholders in our general meetings. The term of office of a Director shall expire at the end of the next AGM to be held after his appointment.

#### Executive Director

**Mr. Hisanori TANIGUCHI (谷口久徳)<sup>#</sup> (also known as Mr. JEONG Seonggi)**  
**Chairman of the Board, Executive Director and Chief Executive Officer**

Our Chairman, aged 52, is the primary leadership figure of our Group. He was appointed as the Representative Director and President\* (代表取締役社長) of our Company on 10 January 2013, the date of incorporation of our Company, and was re-designated as a Director and Chief



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## DIRECTORS AND SENIOR MANAGEMENT

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Executive Officer on 25 June 2014 when our Shareholders resolved to convert our Company into a company with three committees\* (委員会設置会社) under the Japan Companies Act. Apart from his role as an Executive Director and Chief Executive Officer, our Chairman was appointed as our Chairman of the Board in February 2013 and is responsible for our Group's overall corporate strategies, management and business development. He is also a member of our Nomination Committee and Remuneration Committee.

Having joined Niraku Corporation in April 1983, our Chairman has spent over 31 years in our Group and worked closely with generations of the Taniguchi family in building up our Group from a small-scale operation to the fourth largest pachinko hall operator in Japan in 2013 (based on gross pay-ins<sup>1</sup>), according to EBI. Between 1987 and 2002, our Chairman headed a number of departments across our operations, from human resources to hall development and sales, and acquired extensive knowledge in a wide array of aspects in pachinko and pachislot hall operations.

Our Chairman first involved in our overall general management in November 2002, when he was appointed as the managing director\* (常務取締役) of Niraku Corporation. He was subsequently elected as the vice president\* (取締役副社長), president\* (取締役社長) and representative director and president\* (代表取締役社長) of Niraku Corporation in June 2008, June 2009 and April 2010, respectively. He is currently the representative director and president\* (代表取締役社長) of Niraku Corporation and Merrist.

Our Chairman spent substantially his entire career with our Group and has led us in achieving significant milestones through several economic cycles. He is instrumental in the implementation of our centralised management strategy since 1999 and the gradual introduction of low-cost pachinko and pachislot machines in our halls since 2007. Under his leadership, we opened our 50th pachinko hall in Koriyama Arai (郡山荒井), Fukushima Prefecture (福島県) in May 2011 and have continued to grow organically beyond this significant accomplishment.

We believe that the success of our Group and his personal attributes earned our Chairman wide recognition as a leading figure in the pachinko industry in Japan. He is currently the vice president\* (副理事長) of Nihon Yugi-kanren Jigyo Kyokai\* (Japan Amusement Business Association\*) (一般社団法人日本遊技関連事業協会) and the head of its Tohoku branch. He is also a director\* (理事) of Pachinko Trusty Board\* (一般社団法人パチンコ・トラスティ・ボード), an organisation comprised of pachinko operators as well as third party professionals, such as lawyers, accountants and experts in business and corporate governance.

Our Chairman was born and brought up in Japan. He is one of our Controlling Shareholders and, together with other members of the Taniguchi Consortium with whom he acts in concert, will control approximately 69.5% of the voting rights in our Company upon completion of the Global Offering.

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<sup>1</sup> Represents the amount received from customers for rental pachinko balls and pachislot tokens.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Independent Non-executive Directors

#### **Mr. Hiroaki MORITA (森田弘昭)**

##### ***Independent Non-executive Director***

Mr. Morita, aged 78, is an external Director\* (社外取締役) of our Company and has held this position since 25 June 2014. He was previously a statutory auditor\* (監査役) of our Company between 10 January 2013, the date of incorporation of our Company, and 25 June 2014, when our Shareholders resolved to convert our Company into a company with three committees\* (委員会設置会社) under the Japan Companies Act. Under the Listing Rules, Mr. Morita is an Independent Non-executive Director.

Mr. Morita has been a director of IPO Research Institute, Ltd.\* (IPO総合研究所), a consulting firm that provides management and business advice to Japanese corporations looking to conduct initial public offerings and listings, since April 2000. In addition, Mr. Morita also worked for Nomura Securities Co., Ltd.\* (野村證券株式会社) between April 1960 and June 1989 and served various positions in its underwriting and finance divisions. He has also been the representative director (代表取締役) of Morita Office\* (株式会社森田・栗山事務所), which provides management consulting services, since August 1997. With his current and previous positions in these institutions in Japan and as a chartered member of the Securities Analysts Association of Japan\* (日本証券アナリスト協会) since August 1981, he has extensive experience in securities dealings, financial analysis, corporate governance and other aspects relating to listed companies in Japan.

Mr. Morita supervises the overall management and business operations of our Group. He is also the chairman of our Nomination Committee and a member of our Audit Committee and Remuneration Committee. Our Directors have confirmed that Mr. Morita fulfils the independence requirements under Rule 3.13 of the Listing Rules.

Mr. Morita graduated from Nagasaki University\* (長崎大学) with a bachelor's degree in economics in March 1960.

#### **Mr. Norio NAKAYAMA (中山宣男)**

##### ***Independent Non-executive Director***

Mr. Nakayama, aged 67, was appointed as an external Director\* (社外取締役) of our Company on 25 June 2014, when our Shareholders resolved to convert our Company into a company with three committees\* (委員会設置会社) under the Japan Companies Act. Under the Listing Rules, Mr. Nakayama is an Independent Non-executive Director.

Mr. Nakayama joined Kaneka Corporation\* (株式会社力ネカ), a listed company on both The Tokyo Stock Exchange (4118:JP) and Nagoya Stock Exchange (4118:JP) which is primarily engaged in the manufacturing of chemical products in Japan, in April 1969, and was its corporate auditor prior to his departure in May 2009. Through his positions within Kaneka Corporation\* (株式会社力ネカ), Mr. Nakayama acquired experiences in on-going compliance matters and corporate governance of a listed corporation in Japan. Until November 2006, Mr. Nakayama also

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## DIRECTORS AND SENIOR MANAGEMENT

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served as an external corporate auditor for Asahi Homes Co. Ltd \* (旭ホームズ株式会社). Mr. Nakayama has also been a director of Fire Stove Japan Co., Ltd.\* (株式会社ファイヤーストーブジャパン), a company primarily engaged in the sales of stoves and related accessories in Japan since December 2010.

The primary duty of Mr. Nakayama within our Group is to supervise our overall management and business operations. He was also appointed as the chairman of our Remuneration Committee and a member of our Audit Committee. Our Directors have confirmed that Mr. Nakayama fulfils the independence requirements under Rule 3.13 of the Listing Rules.

Mr. Nakayama obtained a bachelor's degree in commerce from Keio University\* (慶応義塾大学) in March 1969.

**Mr. Masaharu TOGO (東郷正春)**  
***Independent Non-executive Director***

Mr. Togo, aged 66, has been an external Director\* (社外取締役) of our Company since 25 June 2014, when our Shareholders resolved to convert our Company into a company with three committees\* (委員会設置会社) under the Japan Companies Act. Under the Listing Rules, Mr. Togo is an Independent Non-executive Director.

In April 1973, Mr. Togo joined Sumitomo Corporation\* (住友商事株式会社), one of the leading general trading conglomerates in Japan (the shares of which are listed on The Tokyo Stock Exchange (8053:JP), Osaka Securities Exchange Co., Ltd. (8053:JP), Nagoya Stock Exchange (8053:JP) and Fukuoka Stock Exchange (8053:JP)) and was a manager in charge of its stainless steel and magnesium production division until his departure in May 2006. Prior to that, Mr. Togo was a corporate auditor for Daiwa Kohtai Co., Ltd\* (大和鋼帯株式会社) from June 2001 to June 2003.

Mr. Togo received a bachelor's degree in commerce from Keio University\* (慶応義塾大学) in March 1973. He was appointed to our Board to supervise the overall management and business operations of our Group and is also a member of our Nomination Committee. Our Directors have confirmed that Mr. Togo fulfils the independence requirements under Rule 3.13 of the Listing Rules.

**Mr. Hiroaki KUMAMOTO (熊本浩明)**  
***Independent Non-executive Director***

Mr. Kumamoto, aged 46, is an external Director\* (社外取締役) of our Company and has held this position since 28 November 2014. Within the meanings of the Listing Rules, He is an Independent Non-executive Director of our Company.

Mr. Kumamoto spent over 14 years of his career both in the Japan and Hong Kong offices of PricewaterhouseCoopers, gaining experience in their audit, business development and consulting divisions. Between October 1997 and July 2004, Mr. Kumamoto was a senior audit associate at the Tokyo office of PricewaterhouseCoopers. He was subsequently seconded to PricewaterhouseCoopers' Hong Kong office as a manager of its Japan business development division and supported the local auditing teams in performing statutory audit in accordance with

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## DIRECTORS AND SENIOR MANAGEMENT

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the accounting principles in Hong Kong and acquired the requisite knowledge in the financial reporting standards of Hong Kong. Upon his return to Japan, he was promoted to a senior manager of the consulting division and specialised in assisting Japanese companies, including listed companies, to prepare their financial statements under the IFRS.

Mr. Kumamoto left PricewaterhouseCoopers in December 2011 to set up his own business, Global Japan Consulting Limited, which provides business, financial and marketing consulting services. He is currently its chief executive officer\* (代表執行役). Mr. Kumamoto received a bachelor's degree in economics from the University of Tokyo\* (東京大学) in March 1993 and a master's degree in international business administration from the University of Tsukuba\* (筑波大学) in July 2012. He qualified as a certified public accountant in Japan in May 2001. Our Directors consider his unique experience and knowledge in JGAAP and IFRS made him a suitable candidate as an Independent Non-executive Director of our Company and a valuable addition to our Board. Our Directors have confirmed that Mr. Kumamoto possesses the appropriate accounting or related financial management expertise required under Rule 3.10(2) and 3.21 of the Listing Rules.

Mr. Kumamoto supervises the overall management and business operations of our Group. He is also the chairman of our Audit Committee. Our Directors have confirmed that Mr. Kumamoto fulfils the independence requirements under Rule 3.13 of the Listing Rules.

### SENIOR MANAGEMENT

Our senior management comprises our Executive Officers and two other management personnel.

#### Executive Officers

As a company with three committees\* (委員会設置会社), Directors of our Company do not execute the business of our Group and are intended to perform a supervisory role. Instead, our Directors formulate general business strategies and entrust the implementation and execution of these strategies, together with the day-to-day management and operation of our Group, to our Executive Officers. Executive Officers are thus key members of our management. Under our Articles, Executive Officers are elected and appointed by our Board of Directors.

Our Company has four Executive Officers. Our Chairman, who also serves as an Executive Director and our Chairman of the Board, is our Chief Executive Officer. Under the Japan Companies Act, our Chief Executive Officer is the legal representative of our Company with the authority to sign and effect agreements for and on behalf of our Company. We are required to appoint at least one Executive Officer from time to time.

See “— Board of Directors — Executive Director” in this section above for the biographical details of our Chairman.

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## DIRECTORS AND SENIOR MANAGEMENT

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### **Mr. Akinori OHISHI (大石明德)**

#### ***Executive officer***

Mr. Ohishi, aged 50, has been our Executive Officer since 25 June 2014, when our Shareholders resolved to convert our Company into a company with three committees\* (委員会設置会社) under the Japan Companies Act. He is a prominent management figure in our Group and manages our day-to-day operations. Mr. Ohishi is also a member of our Risk Management Committee.

Mr. Ohishi joined our Group in April 2010 as an advisor of Niraku Corporation. He was promoted to his current position of director and head of corporate planning of Niraku Corporation in June 2012 and is chiefly responsible for implementing the corporate and business strategies of our pachinko and pachislot hall operations. Mr. Ohishi was elected as a Director of our Company upon our incorporation in January 2013, and was re-designated as an Executive Officer on 25 June 2014. Mr. Ohishi's prior business management experiences include his services at WorkDesign Co., Ltd.\* (株式会社ワーク・デザイン), where he was the representative director\* (代表取締役) from July 2006 to March 2010.

Mr. Ohishi's industry positions include his directorship\* (理事) at Pachinko Chain Store Association\* (一般社団法人パチンコ・チェーンストア協会). Mr. Ohishi graduated from Nihon University\* (日本大学) in March 1987 with a bachelor's degree in sociology.

### **Mr. Hidenori MOROTA (諸田英模)**

#### ***Executive Officer***

Mr. Morota, aged 49, was appointed as our Executive Officer on 28 November 2014. He is also a director of Niraku Corporation, our subsidiary, and has held this position since 22 June 2012. He is the head of our sales department and oversees the advertising, marketing, sales, machine selection and general prize offerings functions of our Group. Mr. Morota is also a member of our Risk Management Committee.

Mr. Morota joined our Group in October 1988 and spent over 13 years in operating and managing our pachinko hall operations. Throughout his career with us, Mr. Morota has served a range of corporate positions across our sales, corporate management, store operations and information technology divisions and has gained extensive experiences in the pachinko industry throughout the process. His senior management duties came in June 2001 when he was elected as a director of Niraku Corporation and was subsequently promoted to an executive officer\* (執行役) in June 2005. He served as a Director of our Company from 10 January 2013 to 25 June 2014. On 28 November 2014, he was designated as our Executive Officer. Prior to joining our Group, Mr. Morota worked at Koriyama Meat Wholesale Co., Ltd.\* (郡山食肉御売(株)) from July 1985 to October 1986.

As at the date of this Prospectus, Mr. Morota is interested in approximately 0.1% of our total number of issued Shares.

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## DIRECTORS AND SENIOR MANAGEMENT

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### **Mr. Mototaka TANAKA (田中基隆)**

#### ***Executive Officer***

Mr. Tanaka, aged 50, was elected as our Executive Officer on 28 November 2014. Concurrently he also serves as a manager of our legal department and is primarily in charge of our legal and corporate affairs, corporate records and our general compliance with corporate and other relevant laws and regulations in Japan.

Mr. Tanaka is a graduate from Kansai University\* (関西大学) and obtained a bachelor's degree in law in March 1990. Prior to joining our Group, he served in the legal department and the general department of SG Holdings Co., Ltd.\* (SGホールディングス), a Japanese conglomerate that provides logistics, courier, real estate and other related services in Japan, from 2005 to 2010, and was the deputy head of its legal department prior to his departure. Having joined our Group in September 2012, he has been a manager of our legal department and was promoted as our Executive Officer in November 2014 in an attempt to strengthen the management and corporate governance functions of our Company.

### **Other Senior Management**

### **Mr. Tatsuo TANIGUCHI (谷口龍雄)**

#### ***Representative Director and President, Nexia***

Mr. Taniguchi, aged 61, was appointed as the representative director and president\* (代表取締役社長) of Nexia on 19 June 2009. His primary duties within our Group are the oversight of our property activities, including the selection, acquisition and maintenance of the lands and premises of our pachinko halls. He also manages the office premises and residential apartment building owned by our Group which were leased to third party customers as an ancillary business.

Mr. Taniguchi joined our Group in June 1974 as an operations manager of Niraku Corporation and was appointed as the managing director\* (常務取締役) in October 1981. He served as the deputy president\* (副社長) of Niraku Corporation between August 1998 and June 2012 and a Director of our Company since 10 January 2013 and was an integral part of our pachinko hall operations until his retirement, as a Director of our Company and Niraku Corporation, in June 2014 and September 2014, respectively. He remains on with an advisory role within our Group, focusing on property activities. Mr. Taniguchi is the brother of our Chairman and is therefore his associate under the Listing Rules. Mr. Taniguchi is also a Controlling Shareholder of our Company and also a person acting in concert with our Chairman within the meanings of the Takeovers Code. See "Relationship with our Controlling Shareholders – Controlling Shareholders acting in concert" for details.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Tadashi UCHIYAMA (内山忠)**  
***Statutory Auditor, Niraku Corporation***

Mr. Uchiyama, aged 63, has been a statutory auditor\* (監査役) of Niraku Corporation since 24 June 2011. As provided under the Japan Companies Act, Mr. Uchiyama's functions within Niraku Corporation is to audit its directors in the proper execution of their duties and supervises the overall management, operation, accounting and financial matters and corporate governance of Niraku Corporation.

Mr. Uchiyama has spent over 37 years in the group of companies under The Toho Bank, Ltd.\* (東邦銀行) between April 1974 and June 2011, and had gained considerable experiences across its business functions, including banking, information system and business consulting. His last position prior to joining our Group was the representative director\* (代表取締役) of Toho Computer Services Co., Ltd.\* (東邦コンピューターサービス株式会社), a business administrative services and support provider to banking institutions in Japan, from June 2010 to June 2011. Mr. Uchiyama has been a member of the Civil Dispute Resolution Committee\* (民事調停委員会) of the Japanese government since October 2012. He received a bachelor's degree in economics from Fukushima University\* (福島大学) in March 1974.

### **JOINT COMPANY SECRETARIES**

Pursuant to Rule 3.28 and Rule 8.17 of the Listing Rules, the secretary of our Company must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary. The Stock Exchange considers (a) an ordinary member of The Hong Kong Institute of Company Secretaries, (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong) or (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) as acceptable academic or professional qualifications.

We have appointed Ms. YIU Wai Man Karen (姚慧敏) and Ms. NG Sau Mei (伍秀薇), both of whom satisfy the qualification requirements under Rules 3.17 and 8.28 of the Listing Rules, as our joint companies secretaries.

**Ms. YIU Wai Man Karen (姚慧敏)**  
***Joint Company Secretary***

Ms. Yiu, aged 39, was appointed as our joint company secretary on 9 December 2014. Aside from her company secretarial duties, Ms. Yiu is also responsible for our accounting and financial reporting matters under IFRS and our financial management controls.

Prior to joining our Group in August 2014, Ms. Yiu was a senior manager in the assurance department of PricewaterhouseCoopers, where she mainly performed audit and financial reporting on Japanese clients, listed issuers on the Stock Exchange and applicants for listing on the Stock Exchange. Between September 2007 and December 2009, Ms. Yiu was seconded to PricewaterhouseCoopers Aarata in Japan and assisted a number of Japanese institutions in



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## DIRECTORS AND SENIOR MANAGEMENT

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preparing their financial statements under IFRS and reconciliation of the differences between JGAAP and IFRS. Our Directors believe that her unique skill set and experiences both in Japan and Hong Kong will enhance our corporate governance and internal auditing functions upon Listing.

Ms. Yiu graduated from the University of Liverpool with a bachelor's degree of Arts in July 1998. She has been a member of the Hong Kong Institute of Certified Public Accountants since September 2009.

As a voluntary measure and for good corporate governance purposes, we have engaged KCS Hong Kong Limited and appointed Ms. NG Sau Mei (伍秀薇) as a joint company secretary to assist Ms. Yiu in her execution of our company secretarial matters upon Listing.

**Ms. NG Sau Mei (伍秀薇)**  
***Joint Company Secretary***

Ms. Ng, aged 37, was appointed as our joint company secretary on 9 December 2014. She is a manager of the listing services department of KCS Hong Kong Limited, a corporate secretarial and accounting service provider in Hong Kong.

Ms. Ng currently serves as a joint company secretary of China Shipping Container Lines Co., Ltd. (2866:HK) and Tian Ge Interactive Holdings Ltd. (1980:HK). The shares of both companies are listed on the Stock Exchange.

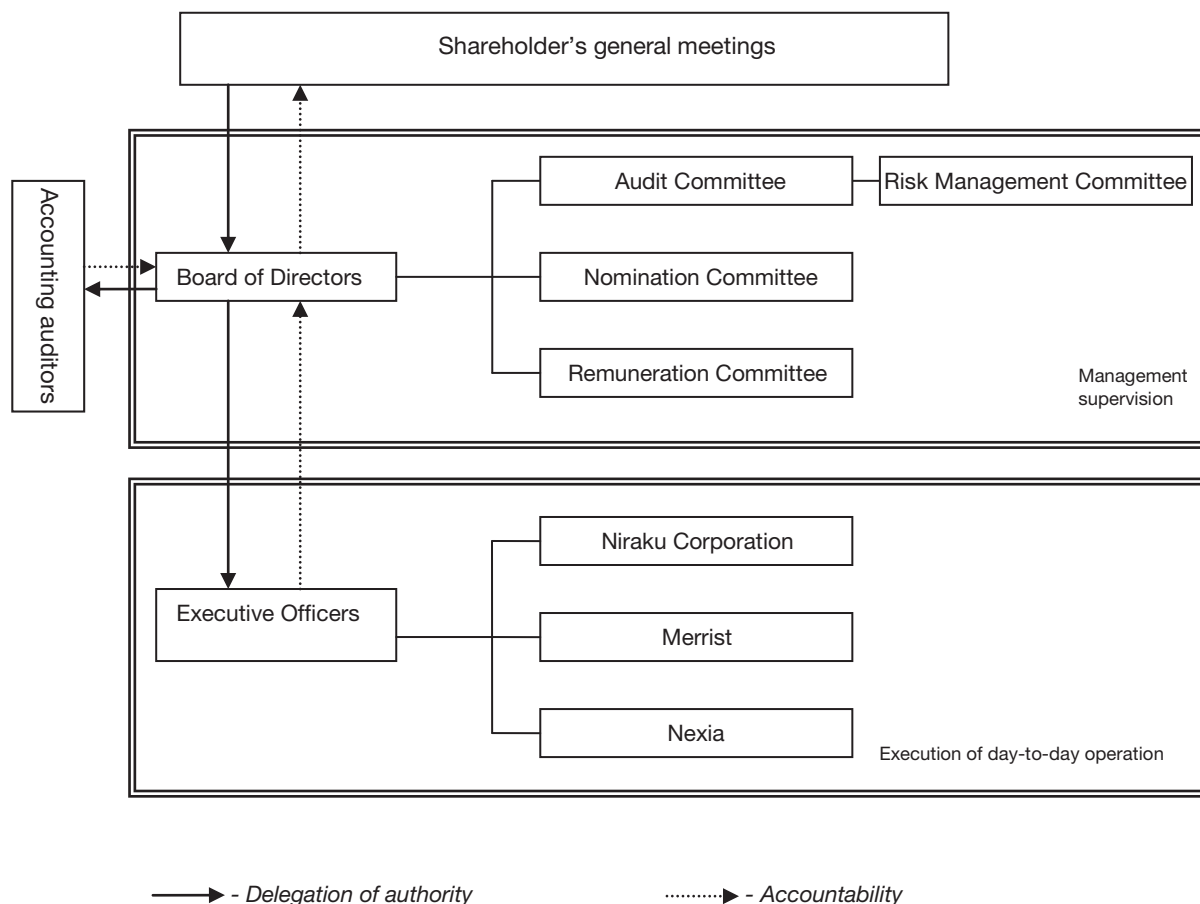
Ms. Ng graduated from the City University of Hong Kong with a bachelor's degree in laws in November 2001. She has been an associate member of The Hong Kong Institute of Chartered Secretaries since September 2007 and an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom since September 2007.



## DIRECTORS AND SENIOR MANAGEMENT

### CORPORATE GOVERNANCE

The following chart sets forth our organisational structure, which reflects our corporate governance regime:



Under the Japan Companies Act, a stock company\* (株式会社) is in general required to adopt either (a) statutory auditors\* (監査役) or a board of statutory auditors\* (監査役), the primary function of which is to supervise and audit the executive actions of the directors or (b) a three-committee system by establishing a nominating committee, a remuneration committee and an audit committee. In addition, the Listing Rules require a listed issuer to establish an audit committee and a remuneration committee, and the Corporate Governance Code requires the establishment of a nomination committee. To ensure management transparency and sound corporate governance, our Shareholders resolved to adopt the three-committee system on 25 June 2014.

Unlike a statutory auditor system where directors perform executive functions, our corporate governance enables the management supervisory function of our Directors to be separate from the business-execution functions of our Executive Officers. Under our corporate governance regime, the primary decision-making body is our Board of Directors, the role of which is primarily supervisory and strategic. Our Executive Officers are entrusted by our Board with tasks of business execution, which are subject to the oversight of our Board and the supervision of our Audit Committee. The majority of our Directors do not serve as Executive Officers, which reinforces the supervisory function of our Board.

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## DIRECTORS AND SENIOR MANAGEMENT

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Our organisational structure consists of our Company, one directly wholly-owned subsidiary and two indirectly wholly-owned subsidiaries. Niraku Corporation, our wholly-owned subsidiary, conducts our primary business of pachinko and pachislot hall operations. Nexia, our indirectly wholly-owned subsidiary, is a property holding and investment company which holds the land and premises on which our Group operates some of our pachinko halls, as well as an office building and a residential apartment building for lease to third party tenants. Merrist, our indirectly wholly-owned subsidiary, is primarily engaged in the employment of disabled people to provide gardening, cleaning and general management services in our pachinko halls.

We recognise the importance of building, maintaining and improving upon a corporate governance regime that is transparent, fair and shareholder-oriented. Our Shareholders elect and appoint our Directors, who in turn appoints our Executive Officers (including our Chief Executive Officer, whose executive actions are ultimately accountable to our Shareholders). Our general corporate strategies are formulated by our Board of Directors and implemented by our Executive Officers in our day-to-day operations.

Our Directors believe that we have established a sound corporate governance regime with the three-committee system that is in compliance with the requirements under the Japan Companies Act and the Listing Rules, adopting the good corporate governance practices recommended in the Corporate Governance Code in all material aspects.

### CORPORATE GOVERNANCE CODE

Our Company complies or intends to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules with the exception for Code A.2.1, which requires the roles of chairman and chief executive be different individuals.

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Chairman 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, our Directors (including our Independent Non-executive Directors) consider our Chairman is the best candidate for both positions and the present arrangements are beneficial and in the interests of our Company and our Shareholders as a whole.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code in each financial year and comply with the “*comply or explain*” principle in our corporate governance report which will be included in our annual reports after the Listing.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD COMMITTEES

Our Board delegates certain responsibilities to our Audit Committee, Remuneration Committee and Nomination Committee. In accordance with the Japan Companies Act, the Listing Rules, our Articles and the relevant laws and regulations in Hong Kong and Japan, we have formed the following committees:

#### Audit Committee

We established our Audit Committee pursuant to the Japan Companies Act on 25 June 2014. In preparation for the Listing, we have incorporated the contents required under paragraph C3 of the Corporate Governance Code as well as Rule 3.22 of the Listing Rules into the written rules of our Audit Committee on 16 March 2015. Our Audit Committee consists Mr. Hiroaki KUMAMOTO (熊本浩明) (chairman), Mr. Hiroaki MORITA (森田弘昭) and Mr. Norio NAKAYAMA (中山宣男). The primary duties of our Audit Committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. Our Audit Committee also monitors our Directors in fulfilling their fiduciary duties.

We believe that the composition and the function of our Audit Committee complies with the applicable requirements of the Stock Exchange. We intend to comply with future requirements to the extent that they become applicable.

#### Remuneration Committee

We established our Remuneration Committee pursuant to the Japan Companies Act on 25 June 2014. In preparation for the Listing, we have incorporated the contents required under paragraph B1 of the Corporate Governance Code as well as Rule 3.26 of the Listing Rules into the written rules of our Remuneration Committee on 16 March 2015. Our Remuneration Committee consists of three members, namely Mr. Norio NAKAYAMA (中山宣男) (chairman), Mr. Hiroaki MORITA (森田弘昭) and our Chairman. The primary duties of our Remuneration Committee are to evaluate the performance of our Directors and senior management and determine the remuneration package of our Directors, Executive Officers and senior management.

#### Nomination Committee

We established our Nomination Committee pursuant to the Japan Companies Act on 25 June 2014. In preparation for the Listing, we have incorporated the contents required under paragraph A5 of the Corporate Governance Code into the written rules of our Nomination Committee on 16 March 2015. Our Nomination Committee consists of three members, namely Mr. Hiroaki MORITA (森田弘昭) (chairman), Mr. Masaharu TOGO (東郷正春) and our Chairman. The primary duties of our Nomination Committee are to make recommendations to our Shareholders on the appointment of our Directors and members of our senior management.

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## DIRECTORS AND SENIOR MANAGEMENT

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We have limited the number of Executive Director in each of our Remuneration Committee and Nomination Committee to one, representing a minority in each of these committees, as a means to enhance transparency and protection of independent Shareholders.

### **Risk Management Committee**

We established our Risk Management Committee on 19 December 2014 as a sub-committee under our Audit Committee with written rules adopted on the same day. Our Risk Management Committee consists of twelve members, namely, Mr. Akinori OHISHI (大石明德) (an Executive Officer) (chairman), Mr. Hidenori MOROTA (諸田英模) (an Executive Officer) and ten other officers of our Group. The primary duties of our Risk Management Committee are identifying, assessing and mitigating the risks faced by our business, including those pertaining to AML and compliance with the Three Party System. Our Risk Management Committee reports its findings (including any irregularity and deficiency) to our Audit Committee. See “Internal Controls and Anti-Money Laundering — Our AML Governance” for details.

### **DIRECTOR’S INTEREST**

Our Chairman, being a member of the Taniguchi Consortium, is one of our Controlling Shareholders. Our Chairman will be interested in approximately 69.5% of our total number of issued Shares immediately upon completion of the Global Offering together with other members of the Taniguchi Consortium, whom our Chairman acts in concert with. For further details of the identities of, and relationship among, each member of Taniguchi Consortium as well as their respective shareholdings in our Company, see “History and Corporate Development — Shareholding Structure — Taniguchi Consortium”.

Except as disclosed in this Prospectus, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Director, senior management, substantial Shareholder or Controlling Shareholder of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years immediately prior to the date of this Prospectus. Except as disclosed in this Prospectus, none of our Executive Officers and senior management holds any directorships in listed public companies in the three years prior to the date of this Prospectus. As at the Latest Practicable Date, except as disclosed in this Prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Further, save as disclosed in this Prospectus, there is no other matter with respect to our Directors that need to be brought to the attention of our Shareholders and there is no information to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Our Directors and members of our senior management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including our contribution to the pension scheme. Our Remuneration Committee determines the salaries of our Directors, Executive Officers and other senior management based on their qualifications, positions and seniority.

The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) paid to our Directors for each of financial years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014 were ¥46 million, ¥110 million, ¥123 million and ¥685 million, respectively.

The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) paid to our five highest paid individuals for each of financial years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014 were ¥165 million, ¥727 million, ¥131 million and ¥686 million, respectively.

It is estimated that an aggregate amount of remuneration equivalent to approximately ¥46.1 million will be paid and granted to our Directors by us for the year ending 31 March 2015 under arrangements in force on the date of this Prospectus.

During the year ended 31 March 2013, a ¥600 million special benefit was paid to Mr. Masataka TANIGUCHI (谷口晶貴) for his retirement, who resigned as a director of Niraku Corporation in September 2012. During the six months ended 30 September 2014, a ¥600 million special benefit was paid to Mr. Tatsuo TANIGUCHI (谷口龍雄) for his retirement, who resigned as a Director of our Company in June 2014 and a director of Niraku Corporation in September 2014. The special benefits paid to these former directors were calculated with a specific formula, taking into consideration (i) their number of years serviced in our Group; (ii) their number of positions served in our Group; and (iii) their remuneration prior to retirement, amongst others. Upon Listing, the remuneration (including retirement allowances) of our Directors, senior management and Executive Officers will be determined by our Remuneration Committee, the majority of which will be made up of Independent Non-executive Directors. The rules of our Remuneration Committee provide that our Group shall not make any retirement payments to our Directors after the Listing.

Save as disclosed in this Prospectus, (i) no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group; (ii) no compensation was paid to, or receivable by, our Directors or past Directors or the five highest paid individuals during the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group; and (iii) none of our Directors waived any emoluments during the same period.

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## DIRECTORS AND SENIOR MANAGEMENT

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Our policy concerning the remuneration of our Directors is that the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, performance and the time devoted to our business.

Except as disclosed in this Prospectus, no Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of us.

### COMPLIANCE ADVISER

We have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following circumstances:

- the publication of any announcements, circulars or financial reports under any applicable laws, rules, codes and guidelines;
- where a transaction, which might be discloseable or being a notifiable or connected transaction under Chapter 13, 14 and/or 14A of the Listing Rules, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this Prospectus; and
- where the Stock Exchange makes an inquiry of us in respect of unusual price movement and trading volume or other issues under Rule 13.10 of the Listing Rules.

The terms of the appointment shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See “Business — Our Strategies” for details of our future plans.

### USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering (after deducting underwriting fees and estimated expenses payable by us in relation to the Global Offering) will be approximately HK\$281 million (equivalent to approximately ¥4,259 million) (assuming an Offer Price of HK\$1.19 per Offer Share, being the mid-point of the indicative Offer Price range, and that the Over-allotment Option is not exercised). We currently intend to apply the net proceeds as follows:

- (1) approximately HK\$253 million (equivalent to approximately ¥3,833 million) (being 90% of the net proceeds) to open:
  - (a) three new suburban halls in Fukushima Prefecture (福島県), Gunma Prefecture (群馬県) and Ibaraki Prefecture (茨城県) during the year ending 31 March 2016; and
  - (b) two new suburban halls in Fukushima Prefecture (福島県) and Ibaraki Prefecture (茨城県) during the year ending 31 March 2017.

See “Business — Strategies — Continue to leverage our strengths and expand our suburban halls network in Northeast Honshu (本州島東北) and to extend our leading market position” for details;

- (2) approximately HK\$22 million (equivalent to approximately ¥341 million) (being 8% of the net proceeds) to invest in our information technology system, namely to consolidate certain software systems into an advanced integrated software system, with improved data-analysis functions and increased efficiency in information sharing and communication among our various departments.

See “Business — Strategies — We will continue to invest in our information technology system” for details; and

- (3) approximately HK\$6 million (equivalent to approximately ¥85 million) (being 2% of the net proceeds) for working capital and other general corporate purposes of our Group.

If the final Offer Price is at the high-end of the indicative Offer Price range (being HK\$1.28 per Share), the net proceeds will increase by approximately HK\$26 million (equivalent to approximately ¥398 million). If the final Offer Price is at the low-end of the indicative Offer Price range (being HK\$1.10 per Share), the net proceeds will decrease by approximately HK\$26 million (equivalent to approximately ¥398 million). In such event, we will increase or decrease the intended use of the net proceeds for the above purpose on a pro-rata basis.

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## **FUTURE PLANS AND USE OF PROCEEDS**

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If the Over-allotment Option is exercised in full, the net proceeds (after deducting underwriting fees and estimated expenses payable by us in relation to the Global Offering) will increase to approximately HK\$333 million (equivalent to approximately ¥5,049 million), assuming an Offer Price of HK\$1.19 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds, including the proceeds from the exercise of the Over-allotment Option, will increase or decrease by approximately HK\$30 million (equivalent to approximately ¥458 million), respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions.

The application of the net proceeds as stated above are only current estimates and are subject to changes based on prevailing economic, market and business conditions. To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the proceeds in interest bearing bank accounts, such as short-term savings accounts or basic short-term money market funds, with licensed commercial banks and/or authorised financial institutions in Hong Kong and Japan.



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## UNDERWRITING

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### HONG KONG UNDERWRITER

The Hong Kong Underwriter is:

Shenyin Wanguo Capital (H.K.) Limited

### INTERNATIONAL UNDERWRITER

The International Underwriter is expected to be:

Shenyin Wanguo Capital (H.K.) Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on 23 March 2015. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the conditions of this Prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriter have agreed severally to apply to purchase or procure applications to purchase the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms or otherwise, prior to 8:00 a.m. on the Listing Date.

##### ***Grounds for termination***

The obligations of the Hong Kong Underwriter to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement will be subject to termination with immediate effect by notice (orally or in writing) from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect:
  - (i) any event, circumstance, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of

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## UNDERWRITING

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disease, economic sanction, withdrawal of trading privileges, strike, lock-out, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riot, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism); or

- (ii) any change or development involving a prospective change, or any event, circumstance or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (as a whole), Japan or Switzerland (the “**Relevant Jurisdictions**”); or
- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shenzhen Stock Exchange and the Shanghai Stock Exchange; or
- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign “**Authority**”), New York (imposed at Federal or New York State level or other competent Authority), London, the PRC, the European Union (as a whole), Japan or Switzerland, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- (v) any new law or any change or development involving a prospective change in existing laws or any event or circumstance resulting in a change or development involving a prospective change in the interpretation or application thereof by any court or other competent Authority in or affecting the Relevant Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or the European Union (as a whole), or Japan or Switzerland; or

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## UNDERWRITING

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- (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the United States dollar, Euro, Hong Kong dollar, Japanese Yen, Swiss franc or the Renminbi against any foreign currencies), or the implementation of any exchange control, in the Relevant Jurisdictions; or
- (viii) any material litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against any member of our Group; or
- (ix) a Director or Executive Officer being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of our Company; or
- (x) the Executive Director or an Executive Officer of our Company vacating his or her office; or
- (xi) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than any breach thereof by any of the Hong Kong Underwriter or the International Underwriter); or
- (xii) an Authority or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xiii) save as disclosed in this Prospectus, the Application Forms, the preliminary and final offering circulars, a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (xiv) a prohibition on our Company for whatever reason from offering, allotting, issuing, selling or delivering the Shares (including the Over-allotment Shares) pursuant to the terms of the Global Offering; or
- (xv) any adverse change or development involving a reasonably likely material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position, prospects or condition, financial or otherwise, or performance of our Group, taken as a whole of any of the risks set out in the section "Risk Factors" in this Prospectus; or
- (xvi) non-compliance of this Prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law; or

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## UNDERWRITING

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- (xvii) the issue or requirement to issue by our Company of any supplement or amendment to this Prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xviii) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or
- (xix) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator:

- (1) has or will or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or
  - (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
  - (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or
  - (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or materially delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) there has come to the notice of the Sole Global Coordinator:
- (i) that any statement contained in any of this Prospectus or the Application Forms and/or in any notices, announcements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it

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## UNDERWRITING

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was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of this Prospectus or the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions in any material respect; or

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, constitute a material omission from any of the this Prospectus or the Application Forms and/or in any notices, announcements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (iii) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of our Group; or
- (iv) any breach of, or any event or circumstance rendering untrue, incorrect or misleading in any material respect, any of the warranties given under the Hong Kong Underwriting Agreement (other than any such breach thereof by the Hong Kong Underwriter); or
- (v) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vi) our Company withdraws this Prospectus (and/or any other offering document issued or used in connection with the Global Offering) or the Global Offering;
- (vii) any expert named in the section "Appendix VI — Statutory and General Information — F. Other Information — 7. Qualification of experts" has withdrawn its consent to being named in any of this Prospectus and the Application Forms or to the issue of any of this Prospectus and the Application Forms; or

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(viii) that, as a result of material adverse and abrupt change in market conditions or otherwise, any order placed by any investor immediately before the Price Determination Agreement is entered into, has been withdrawn or cancelled, and the Sole Global Coordinator, in its sole and absolute discretion, after due consideration, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering. For the avoidance of doubt, the right to terminate under this paragraph (viii) is exercisable only from 3:00 p.m. on the day immediately before the Listing Date to 8:00 a.m. on the Listing Date.

### **Undertakings to the Stock Exchange pursuant to the Listing Rules**

#### ***Undertakings by us***

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or any capitalisation issue, capital reduction or consolidation or sub-division of Shares, we will not, at any time within six months from the Listing Date, issue any further shares or other securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

#### ***Undertakings by our Controlling Shareholders***

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has jointly and severally undertaken to each of us, the Stock Exchange, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriter except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or the Stock Borrowing Agreement, that he or it will not, and shall procure that any other relevant registered holder(s) of the Shares, any close associates or companies controlled by him or it, any nominees or trustees holding the Shares in trust for him or it (as the case may be), will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this Prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (but save pursuant to a pledge or charge as security in favour of an authorised institution for a bona fide commercial loan) any of our Shares or securities in respect of which he or it is shown by this Prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (“**Parent Shares**”); or

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- (b) in the period of a further six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be our Controlling Shareholder (as defined in the Listing Rules).

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he or it will:

- (a) if he or it pledges or charges any of our securities beneficially owned by him or it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) if he or it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### ***Undertakings by our Company***

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriter that, and our Controlling Shareholders have agreed to procure that, except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Half-Year Period**”), our Company will not, and will procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create any

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mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind (“**Encumbrance**”) over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the period of six months commencing on the date on which the First Half-Year Period expires (the “**Second Half-Year Period**”), our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

### ***Undertakings by our Controlling Shareholders***

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriter that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) and unless in compliance with the Listing Rules:

- (a) it/he/she will not at any time during the First Half-Year Period:
  - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase,



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grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, or any such other securities or any interest in any of the foregoing, as applicable) (the “**Relevant Shares**”) or any interest in any company or entity holding, directly or indirectly, any of the Relevant Shares (the “**Holding Entity**”); or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) or an interest in any Holding Entity; or
  - (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or
  - (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraph (i), (ii) or (iii) above, in each case, whether any of the transactions specified in paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);
- (b) it/he/she will not, during the Second Half-Year Period, enter into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it will cease to be a Controlling Shareholder (if applicable) of our Company; and
- (c) until the expiry of the Second Half-Year Period, in the event that it/he/she enters into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

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### **Indemnity**

We, our Controlling Shareholders and our Executive Director have agreed to indemnify the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriter for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us, our Controlling Shareholders or our Executive Director of the Hong Kong Underwriting Agreement.

### **The International Offering**

In connection with the International Offering, it is expected that our Company and our Controlling Shareholders (among others) will enter into the International Underwriting Agreement with the Sole Sponsor, the Sole Global Coordinator and the International Underwriter. Under the International Underwriting Agreement, the International Underwriter would, subject to certain conditions set out therein, severally agree to purchase the International Offer Shares or procure purchasers to purchase such International Offer Shares.

We will grant to the International Underwriter the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriter at any time from the date of the International Underwriting Agreement until the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require us to offer up to an aggregate of 45,000,000 additional Shares, together representing 15% of the number of Shares initially being offered under the Global Offering, at the Offer Price solely to cover over-allocations in the International Offering, if any.

Under the International Underwriting Agreement, our Company, our Controlling Shareholders and our Executive Director will agree to indemnify the International Underwriter against certain losses which they may suffer including losses as a result of certain claims or liabilities which might be incurred by the International Underwriter.

### **Underwriting commission and expenses**

Under the terms and conditions of the Hong Kong Underwriting Agreement, the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) will receive an underwriting commission equal to 2.5% on the aggregate Offer Price payable in respect of all of the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering). The respective entitlements of the Hong Kong Underwriter to the underwriting commission will be paid as separately agreed between the Sole Global Coordinator and the Hong Kong Underwriter. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriter (but not the Hong Kong Underwriter). In addition, our Company may, at its sole and absolute discretion, pay to the Sole Global Coordinator for its accounts an incentive fee.

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## UNDERWRITING

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Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$1.19 per Share (being the mid-point of the indicative Offer Price range of HK\$1.10 to HK\$1.28 per Share), the aggregate commissions and fees, together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering to be borne by us are estimated to amount to approximately HK\$1,149 million in aggregate.

### **Hong Kong Underwriter's interests in our Company**

Save for their respective obligations under the Hong Kong Underwriting Agreement or as otherwise disclosed in this Prospectus, none of the Underwriters is interested legally or beneficially in any shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of the members of our Group in the Global Offering.

Following the completion of the Global Offering, the Hong Kong Underwriter and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements and the Stock Borrowing Agreement.

### **Independence of the Sole Sponsor**

Shenyin Wanguo Capital (H.K.) Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

### **ACTIVITIES BY SYNDICATE MEMBERS**

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/ or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

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## UNDERWRITING

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In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in “Structure of the Global Offering”. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilising Manager, its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares). Whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

### **RESTRICTIONS ON THE OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. Shenyin Wanguo Capital (H.K.) Limited is the Sole Sponsor for the listing of the Shares on the Stock Exchange and the Sole Global Coordinator, Sole Lead Manager and Sole Bookrunner of the Global Offering.

The Global Offering initially consists of:

- (i) the Hong Kong Public Offering of 30,000,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described in “Hong Kong Public Offering” in this section below; and
- (ii) the International Offering of 270,000,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have applied for Hong Kong Offer Shares in the Hong Kong Public Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Underwriter are soliciting from prospective investors' indications of interest in acquiring the Offer Shares in the International Offering. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up and to cease on or around, the last day of lodging applications under the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and International Offering respectively may be subject to adjustment and, in the case of the International Offering only, the Over-allotment Option as set out in “International Offering — Over-allotment Option” in this section below.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. Details of the underwriting arrangements are summarised in “Underwriting”.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares pursuant to the Global Offering will be conditional on, among others:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Global Offering and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and such listing and permission not subsequently having been revoked prior to the commencement of dealing in our Shares on the Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective agreements

in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this Prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Friday, 27 March 2015 and in any event, not later than 12:00 noon on Wednesday, 1 April 2015.

**If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company by 12:00 noon on Wednesday, 1 April 2015, the Global Offering will not proceed and will lapse.**

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

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## STRUCTURE OF THE GLOBAL OFFERING

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If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) and on our website ([www.ngch.co.jp](http://www.ngch.co.jp)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares". In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

**Share certificates for the Offer Shares are expected to be issued on Thursday, 2 April 2015 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 8 April 2015 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for termination" has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.**

### HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

Our Company is initially offering 30,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised). Subject to the reallocation of Shares between (i) the International Offering; and (ii) the Hong Kong Public Offering as mentioned below, the number of the Hong Kong Offer Shares will represent 2.5% of our Company's issued share capital immediately after completion of the Global Offering.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in " – Conditions of the Global Offering" in this section below.

#### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

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## STRUCTURE OF THE GLOBAL OFFERING

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The total available Shares under the Hong Kong Public Offering (after taking into account of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering) is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5.0 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only apply for Hong Kong Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 15,000,000 Hong Kong Offer Shares (being 50% of the 30,000,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering) are liable to be rejected.

### **Reallocation**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering (i) 15 times or more but less than 50 times; (ii) 50 times or more but less than 100 times; and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 90,000,000 Offer Shares (in the case of (i)), 120,000,000 Offer Shares (in the case of (ii)) and 150,000,000 Offer Shares (in the case of (iii)) representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option) in each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate. In addition, in certain prescribed circumstances, the Sole Global Coordinator may, at its sole and absolute discretion, reallocate International Offer Shares as it deems appropriate from the International Offering to the Hong Kong Public Offering to satisfy in whole or in part the excess valid application in the Hong Kong Public Offering.



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## STRUCTURE OF THE GLOBAL OFFERING

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If the Hong Kong Offer Shares are not fully subscribed for, the Sole Global Coordinator may, at its sole and absolute discretion, reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportion as the Sole Global Coordinator deems appropriate.

### **Applications**

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$1.28 per Offer Share in addition to any brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share. If the Offer Price, as finally determined in the manner described in “— Price Determination of the Global Offering” in this section below, is less than the maximum price of HK\$1.28 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in “How to Apply for Hong Kong Offer Shares”.

References in this Prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### **INTERNATIONAL OFFERING**

#### **Number of Offer Shares offered**

The number of Offer Shares to be initially offered for subscription under the International Offering will be 270,000,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Global Offering (subject to adjustment and the Over-allotment Option). Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent 22.6% of our enlarged issued share capital immediately after completion of the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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The International Offering is subject to the same conditions as stated in “— Conditions of the Global Offering” below in this section.

### **Allocation**

The International Offering will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the book-building process described in “— Price Determination of the Global Offering” in this section below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

### **Over-allotment Option**

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the Sole Global Coordinator (on behalf of International Underwriter) exercisable at the sole discretion of the Sole Global Coordinator (on behalf of the International Underwriter).

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging application under the Hong Kong Public Offering, to require our Company to allot and issue up to 45,000,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the same price per Share under the International Offering to cover over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

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## STRUCTURE OF THE GLOBAL OFFERING

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### PRICE DETERMINATION OF THE GLOBAL OFFERING

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Friday, 27 March 2015, and in any event not later than 12:00 noon on Wednesday, 1 April 2015, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company.

The Offer Price will be not more than HK\$1.28 per Share and is expected to be not less than HK\$1.10 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

**Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus.**

The Sole Global Coordinator, for itself and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese), and our website ([www.ngch.co.jp](http://www.ngch.co.jp)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this Prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company with the Sole Global Coordinator (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this Prospectus.

The final Offer Price, the levels of indication of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares under the Hong Kong Public Offering, are expected to be announced on Thursday, 2 April 2015 in the manner set out in "How to Apply for Hong Kong Offer Shares — 11. Publication of Results".

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## STRUCTURE OF THE GLOBAL OFFERING

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### STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permitted to do so, in each case in compliance with all applicable laws, rules and regulations, including those of Hong Kong. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

The Sole Global Coordinator has been appointed by us as the stabilising manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view of stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period beginning on the Listing Date and expected to end on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilising Rules), as amended, made under the SFO. Any market purchases of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct any such stabilising action, which if commenced, will be conducted at the sole and absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time. Any such stabilising activity is required to be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 45,000,000 Shares in aggregate, which is 15% of the Shares initially available under the Global Offering.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules under the SFO includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares; (iii) subscribing, or agreeing to subscribe, for our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (v) selling, or agreeing to sell, our Shares in order to liquidate any position established as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above. The Stabilising Manager, its affiliates or any person acting for it, may take all or any of the above stabilising action in Hong Kong during the stabilisation period.

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## STRUCTURE OF THE GLOBAL OFFERING

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Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position. Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;
- stabilising action cannot be used to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 45,000,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Sole Global Coordinator (on behalf of the International Underwriter) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

### **STOCK BORROWING ARRANGEMENT**

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Sole Global Coordinator (or any person acting for it) may choose to borrow Shares from Shareholders of our Company under stock borrowing arrangements, or acquire Shares from other sources, including the exercise of the Over-allotment Option.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Stabilising Manager will enter into the Stock Borrowing Agreement with Mr. Taniguchi, one of the Controlling Shareholders, whereby the Stabilising Manager may borrow Shares from Mr. Taniguchi on the following conditions:

- (a) the stock borrowing will only be effected by the Stabilising Manager for the settlement of over-allocations in connection with the International Offering;
- (b) the maximum number of Shares borrowed from Mr. Taniguchi will be limited to 45,000,000 Shares, being the maximum number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from Mr. Taniguchi must be returned to it or its nominees (as the case may be) no later than the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be allotted and issued upon exercise of the Over-allotment Option have been allotted and issued; or (iii) such earlier time as may be agreed in writing between Mr. Taniguchi and the Stabilising Manager;
- (d) the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and
- (e) no payments will be made to Mr. Taniguchi by the Stabilising Manager in relation to such stock borrowing arrangement.

The Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements. The Stock Borrowing Arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that it complies with the requirements set forth in Rule 10.07(3) of the Listing Rules. No payment will be made to Mr. Taniguchi by the Stabilising Manager or its agent in relation to such stock.

### **DEALINGS**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 8 April 2015, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 8 April 2015, and will be traded in board lots of 2,000.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO Service Provider** and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of China.

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or Chief Executive Officer of our Company and/or any of its subsidiaries;
- a close associate of any of the above;
- a core connected person of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 24 March 2015 until 12:00 noon on Friday, 27 March 2015 from:

- (i) the office of the **Hong Kong Underwriter**, namely **Shenyin Wanguo Capital (H.K.) Limited** at Level 19, 28 Hennessy Road, Hong Kong; and



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

	<b>Branch name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Des Voeux Road Branch	Standard Chartered Bank Building 4-4A, Des Voeux Road Central Central
	North Point Centre Branch	Shop G, G/F, North Point Centre 284 King's Road, North Point
<b>Kowloon</b>	Kwun Tong Hoi Yuen Road	G/F, Fook Cheong Building No. 63 Hoi Yuen Road, Kwun Tong Kowloon
	Mongkok Branch	Shop B, G/F, 1/F & 2/F 617-623 Nathan Road, Mongkok
<b>New Territories</b>	Tai Po Branch	G/F Shop No. 2 23 - 25 Kwong Fuk Road Tai Po Market, Tai Po
	Shatin Plaza Branch	Shop No. 8, Shatin Plaza 21-27 Shatin Centre Street Shatin, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 24 March 2015 until 12:00 noon on Friday, 27 March 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited — Niraku Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Tuesday, 24 March 2015 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 25 March 2015 — 9:00 a.m. to 5:00 p.m.
- Thursday, 26 March 2015 — 9:00 a.m. to 5:00 p.m.
- Friday, 27 March 2015 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 27 March 2015, the last application day or such later time as described in "— 10. Effect of Bad Weather on the Opening of the Applications Lists" in this section below.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/ or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Incorporation;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Incorporation;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application and will not rely on any other information or representations except those in any supplement to this Prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this Prospectus;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (vi) agree that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this Prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator, the Sole Sponsor, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/ or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by registered post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

### **Additional instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in “2. Who Can Apply” in this section above, may apply through the **White Form eIPO** for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this Prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

### **Time for Submitting Applications under the White Form eIPO**

You may submit your application to the **White Form eIPO** Service Provider at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 24 March 2015 until 11:30 a.m. on Friday, 27 March 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 27 March 2015 or such later time under “— 10. Effects of Bad Weather on the Opening of the Applications Lists” in this section below.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### No Multiple Applications

If you apply by means of the **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 per **“NIRAKU GC HOLDINGS, INC.” White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited  
**Customer Service Centre**  
**1/F, One & Two Exchange Square**  
**8 Connaught Place**  
**Central, Hong Kong**

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this Prospectus and have relied only on the information and representations in this Prospectus in causing the application to be made, save as set out in any supplement to this Prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Incorporation; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### **Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this Prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Tuesday, 24 March 2015 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Wednesday, 25 March 2015 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Thursday, 26 March 2015 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Friday, 27 March 2015 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon

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*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Tuesday, 24 March 2015 until 12:00 noon on Friday, 27 March 2015 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, 27 March 2015, the last application day or such later time as described in “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section below.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before Friday, 27 March 2015.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** and **YELLOW** Application Form or through the **White Form eIPO** in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering — Price Determination of the Global Offering”.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 27 March 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 27 March 2015 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, 2 April 2015 in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on our website ([www.ngch.co.jp](http://www.ngch.co.jp)) and the Stock Exchange’s website ([www.hkexnews.hk](http://www.hkexnews.hk)).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our website ([www.ngch.co.jp](http://www.ngch.co.jp)) and the Stock Exchange’s website ([www.hkexnews.hk](http://www.hkexnews.hk)) by no later than 8:00 a.m. on Thursday, 2 April 2015;
- from the designated results of allocations website ([www.iporesults.com.hk](http://www.iporesults.com.hk)) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 2 April 2015 to 12:00 midnight on Wednesday, 8 April 2015;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 2 April 2015 to Sunday, 5 April 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 2 April 2015 and Wednesday, 8 April 2015 to Thursday, 9 April 2015 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this Prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this Prospectus.

If any supplement to this Prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- you apply for more than 50% Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$1.28 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Conditions of the Global Offering” or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 2 April 2015.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by registered post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 2 April 2015. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 8 April 2015 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### **(i) If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 2 April 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by registered post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, 2 April 2015, by registered post and at your own risk.

#### **(ii) If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, 2 April 2015, by registered post and at your own risk.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participants stock account as stated in your Application Form on Thursday, 2 April 2015, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- If you are applying as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph "11. Publication of Results" in this section above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 2 April 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **(iii) If you apply through the White Form eIPO**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 2 April 2015, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by registered post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, 2 April 2015 by registered post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by registered post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### (iv) If you apply via Electronic Application Instructions to HKSCC

#### *Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 2 April 2015, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, 2 April 2015. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 2 April 2015 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 2 April 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 2 April 2015.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

24 March 2015

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\*  
Shenyin Wanguo Capital (H.K.) Limited

Dear Sirs,

We report on the financial information 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 its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position as at 31 March 2012, 2013 and 2014 and 30 September 2014, the statements of financial position of the Company as at 31 March 2013 and 2014 and 30 September 2014, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 24 March 2015 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Japan under the Companies Act (会社法) of Japan (Act No.86 of 2005), as amended, supplemented or otherwise modified from time to time (the "Japan Companies Act"), with limited liability on 10 January 2013. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed "Reorganisation" below, which was completed on 30 September 2014, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
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As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies.

The directors of the Company have prepared the consolidated financial statements of the Group for the year ended 31 March 2014 in accordance with Japanese General Acceptable Accounting Principles (the "Japanese GAAP") issued by Accounting Standards Board of Japan (the "Japanese GAAP Financial Statements"). The Japanese GAAP Financial Statements for the year ended 31 March 2014 were audited by PricewaterhouseCoopers Aarata.

The audited financial statements of a subsidiary as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in its place of incorporation. The details of the statutory auditors of the company are set out in Note 1.2 of Section II.

The directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRS. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the "ISA") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

#### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

#### **REPORTING ACCOUNTANT'S RESPONSIBILITY**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**OPINION**

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 March 2013 and 2014 and 30 September 2014 and of the state of affairs of the Group as at 31 March 2012, 2013 and 2014 and 30 September 2014 and of the Group's results and cash flows for the Relevant Periods then ended.

**REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION**

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus, which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 September 2013, and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and fair presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

## I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 March 2012, 2013 and 2014 and 30 September 2014, and for each of the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014 (the "Financial Information"):

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	The Group				
		Year ended 31 March			Six months ended 30 September	
		2012	2013	2014	2013	2014
		¥ million	¥ million	¥ million	¥ million	¥ million
					(unaudited)	
<b>Revenue</b> .....	5	30,352	32,751	33,847	16,429	15,572
Other income .....	6	1,115	446	378	182	801
Other losses, net .....	6	(504)	(20)	(97)	(81)	(25)
Hall operating expenses...	7	(20,609)	(21,909)	(22,798)	(11,494)	(11,644)
Administrative and other operating expenses.....	7	<u>(3,319)</u>	<u>(4,126)</u>	<u>(4,636)</u>	<u>(2,013)</u>	<u>(2,808)</u>
<b>Operating profit</b> .....		7,035	7,142	6,694	3,023	1,896
Finance income .....		66	63	58	28	88
Finance costs .....		<u>(794)</u>	<u>(720)</u>	<u>(744)</u>	<u>(368)</u>	<u>(357)</u>
Finance costs, net .....	9	(728)	(657)	(686)	(340)	(269)
<b>Profit before income tax</b> .....		6,307	6,485	6,008	2,683	1,627
Income tax expense .....	10	<u>(2,978)</u>	<u>(2,720)</u>	<u>(2,310)</u>	<u>(1,060)</u>	<u>(690)</u>
<b>Profit for the year/period attributable to shareholders of the Company</b> .....		<u>3,329</u>	<u>3,765</u>	<u>3,698</u>	<u>1,623</u>	<u>937</u>
<b>Earnings per share for profit attributable to shareholders of the Company</b>						
- Basic and diluted (expressed in Japanese Yen per share) (Note) .....	11	<u>855</u>	<u>967</u>	<u>949</u>	<u>417</u>	<u>241</u>

Note	The Group				
	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million (unaudited)	¥ million
<b>Other comprehensive income/(loss)</b>					
Item that may be reclassified to profit or loss					
Change in value of financial assets through other comprehensive income.....	16	124	433	163	(39)
<b>Total comprehensive income for the year/ period attributable to the shareholders of the Company.....</b>	<u>3,345</u>	<u>3,889</u>	<u>4,131</u>	<u>1,786</u>	<u>898</u>

Note: The earnings per share as presented above has not taken into account the proposed sub-division of issued shares pursuant to the approval from the board of directors on 16 March 2015 because the proposed sub-division of issued shares has not become effective as of the date of this report.



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 March			As at 30
		2012	2013	2014	September
		¥ million	¥ million	¥ million	2014
				¥ million	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment . . .	13	22,351	23,735	25,817	25,806
Investment properties . . . . .	15	683	669	676	669
Intangible assets . . . . .	16	177	161	167	172
Prepayments, deposits and other receivables . . . . .	22	4,051	4,310	4,251	4,519
Amounts due from directors and a shareholder . . . . .	35	318	311	304	—
Amounts due from related companies . . . . .	35	435	—	—	—
Financial assets at fair value through profit or loss . . . . .	18	395	546	601	697
Financial assets at fair value through other comprehensive income . . . . .	18	220	919	1,574	1,476
Deferred income tax assets . . . .	30	1,563	1,612	1,462	2,038
Long-term bank deposits . . . . .	23	142	71	84	119
		<u>30,335</u>	<u>32,334</u>	<u>34,936</u>	<u>35,496</u>
<b>Current assets</b>					
Inventories . . . . .	20	412	86	21	40
Trade receivables . . . . .	21	60	64	54	52
Prepayments, deposits and other receivables . . . . .	22	989	1,035	1,546	1,487
Amounts due from directors and a shareholder . . . . .	35	10	12	12	—
Financial assets at fair value through profit or loss . . . . .	18	34	—	100	—
Pledged bank deposits and bank deposits with maturity over 3 months . . . . .	23	758	1,754	1,706	1,639
Cash and cash equivalents . . . .	23	12,585	6,909	8,409	10,002
Tax recoverable . . . . .		—	—	121	370
		<u>14,848</u>	<u>9,860</u>	<u>11,969</u>	<u>13,590</u>
<b>Total assets</b> . . . . .		<u>45,183</u>	<u>42,194</u>	<u>46,905</u>	<u>49,086</u>

	Note	As at 31 March			As at 30 September
		2012	2013	2014	2014
		¥ million	¥ million	¥ million	¥ million
<b>EQUITY</b>					
<b>Equity attributable to shareholders of the Company</b>					
Share capital.....	24	10	10	10	10
Reserves.....	25	18,638	17,842	21,790	20,869
<b>Total equity</b> .....		<u>18,648</u>	<u>17,852</u>	<u>21,800</u>	<u>20,879</u>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings .....	28	5,026	7,991	9,270	9,968
Obligations under finance leases .....	29	4,135	4,158	5,366	4,090
Amount due to a related company .....	35	45	—	—	—
Provisions and other payables ..	27	1,280	1,430	1,485	1,501
Derivative financial instruments .	19	37	26	33	23
		<u>10,523</u>	<u>13,605</u>	<u>16,154</u>	<u>15,582</u>
<b>Current liabilities</b>					
Trade payables .....	26	347	382	201	145
Borrowings .....	28	7,203	3,082	3,109	4,073
Obligations under finance leases .....	29	2,392	2,394	2,253	2,808
Amount due to a related party ..	35	100	—	—	—
Amount due to a related company .....	35	—	—	—	24
Accruals, provisions and other payables .....	27	3,577	3,584	2,344	4,325
Derivative financial instruments .	19	18	18	15	15
Current income tax liabilities ...		2,375	1,277	1,029	1,235
		<u>16,012</u>	<u>10,737</u>	<u>8,951</u>	<u>12,625</u>
<b>Total liabilities</b> .....		<u>26,535</u>	<u>24,342</u>	<u>25,105</u>	<u>28,207</u>
<b>Total equity and liabilities</b> ...		<u>45,183</u>	<u>42,194</u>	<u>46,905</u>	<u>49,086</u>
<b>Net current (liabilities)/assets</b> .....		<u>(1,164)</u>	<u>(877)</u>	<u>3,018</u>	<u>965</u>
<b>Total assets less current liabilities</b> .....		<u>29,171</u>	<u>31,457</u>	<u>37,954</u>	<u>36,461</u>

## STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 March		As at 30
		2013	2014	September
		¥ million	¥ million	¥ million
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investments in subsidiaries . . . . .	14	16,286	16,286	16,286
<b>Current assets</b> . . . . .				
Prepayment, deposits and other receivables . . . . .	22	—	—	9
Cash and cash equivalents . . . . .	23	62	93	670
Current income tax recoverable . . . . .		—	121	370
		62	214	1,049
<b>Total assets</b> . . . . .		<u>16,348</u>	<u>16,500</u>	<u>17,335</u>
<b>EQUITY</b>				
Share capital . . . . .	24	10	10	10
Reserves . . . . .	25	12,834	13,352	13,579
<b>Total equity</b> . . . . .		<u>12,844</u>	<u>13,362</u>	<u>13,589</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b> . . . . .				
Borrowings . . . . .	28	3,114	2,779	2,608
Other payables . . . . .	27	8	7	7
		3,122	2,786	2,615
<b>Current liabilities</b>				
Borrowings . . . . .	28	174	350	351
Amount due to a subsidiary . . . . .	31	201	—	701
Amount due to a related company . . . . .	35	—	—	24
Other payables . . . . .	27	7	1	55
Current income tax liabilities . . . . .		—	1	—
		382	352	1,131
<b>Total liabilities</b> . . . . .		<u>3,504</u>	<u>3,138</u>	<u>3,746</u>
<b>Total equity and liabilities</b> . . . . .		<u>16,348</u>	<u>16,500</u>	<u>17,335</u>
<b>Net current liabilities</b> . . . . .		<u>(320)</u>	<u>(138)</u>	<u>(82)</u>
<b>Total assets less current liabilities</b> . . . . .		<u>15,966</u>	<u>16,148</u>	<u>16,204</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company						Total
	Share capital	Capital surplus	Capital reserve	Legal reserve	Investment revaluation reserve	Retained earnings	
		(Note 25(a))	(Note 25(b))	(Note 25(c))	(Note 25(d))		
¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	
<b>Balance at 1 April 2011</b> . . . . .	10	12,844	(15,999)	82	(7)	18,483	15,413
<b>Comprehensive income</b>							
Profit for the year . . . . .	—	—	—	—	—	3,329	3,329
<b>Other comprehensive income</b>							
Financial assets at fair value through other comprehensive income, net of tax . . . . .	—	—	—	—	16	—	16
<b>Total comprehensive income for the year</b> . . . . .	—	—	—	—	16	3,329	3,345
Dividend . . . . .	—	—	—	10	—	(120)	(110)
<b>Total transactions with shareholders</b> . . . . .	—	—	—	10	—	(120)	(110)
<b>Balances at 31 March 2012 and 1 April 2012</b> . . . . .	10	12,844	(15,999)	92	9	21,692	18,648
<b>Comprehensive income</b>							
Profit for the year . . . . .	—	—	—	—	—	3,765	3,765
<b>Other comprehensive income</b>							
Financial assets at fair value through other comprehensive income, net of tax . . . . .	—	—	—	—	124	—	124
<b>Total comprehensive income</b> . . . . .	—	—	—	—	124	3,765	3,889
Dividend . . . . .	—	—	—	11	—	(121)	(110)
Purchase of treasury shares (Note 25(e)) . . . . .	—	—	—	—	—	(4,575)	(4,575)
<b>Total transactions with shareholders</b> . . . . .	—	—	—	11	—	(4,696)	(4,685)
<b>Balance at 31 March 2013</b> . . . . .	10	12,844	(15,999)	103	133	20,761	17,852

	Attributable to shareholders of the Company						
	Share capital	Capital surplus	Capital reserve	Legal reserve	Investment revaluation reserve	Retained earnings	Total
		(Note 25(a))	(Note 25(b))	(Note 25(c))	(Note 25(d))		
¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	
<b>Balance at 1 April 2013</b> . . . . .	10	12,844	(15,999)	103	133	20,761	17,852
<b>Comprehensive income</b>							
Profit for the year . . . . .	—	—	—	—	—	3,698	3,698
<b>Other comprehensive income</b>							
Financial assets at fair value through other comprehensive income, net of tax . . . . .	—	—	—	—	433	—	433
<b>Total comprehensive income for the year</b> . . . . .	—	—	—	—	433	3,698	4,131
Dividend . . . . .	—	—	—	4	—	(187)	(183)
<b>Total transactions with shareholders</b> . . . . .	—	—	—	4	—	(187)	(183)
<b>Balances at 31 March 2014 and 1 April 2014</b> . . . . .	10	12,844	(15,999)	107	566	24,272	21,800
<b>Comprehensive income</b>							
Profit for the period . . . . .	—	—	—	—	—	937	937
<b>Other comprehensive loss</b>							
Financial assets at fair value through other comprehensive income, net of tax . . . . .	—	—	—	—	(39)	—	(39)
<b>Total comprehensive (loss)/income for the period</b> . . . . .	—	—	—	—	(39)	937	898
Dividend . . . . .	—	—	—	—	—	(183)	(183)
Purchase of treasury shares (Note 25(e)) . . . . .	—	—	(29)	—	—	(497)	(526)
Reduction in capital surplus upon distribution in specie (Note 25(a)) . . . . .	—	(1,110)	—	—	—	—	(1,110)
<b>Total transactions with shareholders</b> . . . . .	—	(1,110)	(29)	—	—	(680)	(1,819)
<b>Balance at 30 September 2014</b> . . . . .	10	11,734	(16,028)	107	527	24,529	20,879

	Attributable to shareholders of the Company						
	Share capital	Capital surplus (Note 25(a))	Capital reserve (Note 25(b))	Legal reserve (Note 25(c))	Investment revaluation reserve (Note 25(d))	Retained earnings	Total
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
<b>Balance at 1 April 2013</b> . . . . .	10	12,844	(15,999)	103	133	20,761	17,852
<b>Comprehensive income</b>							
Profit for the period . . . . .	—	—	—	—	—	1,623	1,623
<b>Other comprehensive income</b>							
Financial assets at fair value through other comprehensive income, net of tax . . . . .	—	—	—	—	163	—	163
<b>Total comprehensive income for the period</b> . . . . .	—	—	—	—	163	1,623	1,786
Dividend . . . . .	—	—	—	—	—	(183)	(183)
<b>Total transactions with shareholders</b> . . . . .	—	—	—	—	—	(183)	(183)
<b>Balance at 30 September 2013 (unaudited)</b> . . . . .	<u>10</u>	<u>12,844</u>	<u>(15,999)</u>	<u>103</u>	<u>296</u>	<u>22,201</u>	<u>19,455</u>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 March			Six months ended 30 September	
		2012	2013	2014	2013	2014
		¥ million	¥ million	¥ million	¥ million (unaudited)	¥ million
<b>Cash flows from operating activities</b>						
Cash generated from operations . . . . .	32	13,435	12,268	9,607	3,561	4,527
Interest paid . . . . .		(707)	(641)	(692)	(344)	(331)
Income tax paid . . . . .		(1,264)	(3,943)	(2,635)	(1,293)	(1,032)
Net cash generated from operating activities . . . . .		<u>11,464</u>	<u>7,684</u>	<u>6,280</u>	<u>1,924</u>	<u>3,164</u>
<b>Cash flows from investing activities</b>						
Purchase of financial assets at fair value . . . . .		—	(646)	(150)	(53)	(100)
Purchase of property, plant and equipment . . . . .		(225)	(1,042)	(1,326)	(859)	(1,014)
Purchase of investment properties . . . . .	15	(519)	—	(21)	—	—
Purchase of intangible assets . . . . .	16	(1)	(15)	(34)	(29)	(20)
Acquisition of a subsidiary . . . . .	36	—	(820)	—	—	—
Amounts due from related companies . . . . .		—	435	—	—	—
Amounts due from related parties . . . . .		25	—	—	—	—
Proceeds from disposal of property, plant and equipment . . . . .	32	42	69	33	2	195
Proceeds from disposal of financial assets at fair value . . . . .		5	13	5	13	139
Proceeds from bank deposits with maturity over 3 months . . . . .		421	192	316	48	137
Placement of bank deposits with maturity over 3 months . . . . .		(384)	(139)	(220)	(88)	(69)

	Note	Year ended 31 March			Six months ended 30 September	
		2012	2013	2014	2013	2014
		¥ million	¥ million	¥ million	¥ million (unaudited)	¥ million
Placement of long-term bank deposits . . . . .		(66)	(78)	(61)	(31)	(36)
Placement of pledged bank deposits . . . . .		—	(900)	—	—	—
Interest received . . . . .		3	—	1	—	—
Dividend received . . . . .		4	29	67	35	34
Net cash used in investing activities . . . . .		<u>(695)</u>	<u>(2,902)</u>	<u>(1,390)</u>	<u>(962)</u>	<u>(734)</u>
<b>Cash flows from financing activities</b>						
Purchase of shares . . . . .	25(e)	—	(4,575)	—	—	(526)
Distribution to the Controlling Shareholders . . . . .		—	—	—	—	(988)
Repayment of obligations under finance leases . . . . .		(4,086)	(4,393)	(4,461)	(2,401)	(776)
Amount due to a related party . . . . .		100	(100)	—	—	—
Amount due to a related company . . . . .		—	(45)	—	—	—
Proceeds from bank borrowings . . . . .		9,172	11,921	8,897	6,057	4,564
Repayment of bank borrowings . . . . .		(8,891)	(13,156)	(7,643)	(3,393)	(2,928)
Dividends paid . . . . .		<u>(110)</u>	<u>(110)</u>	<u>(183)</u>	<u>(183)</u>	<u>(183)</u>
Net cash (used in)/generated from financing activities . . . . .		<u>(3,815)</u>	<u>(10,458)</u>	<u>(3,390)</u>	<u>80</u>	<u>(837)</u>
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>		6,954	(5,676)	1,500	1,042	1,593
Cash and cash equivalents at beginning of the year/period . . . . .		<u>5,631</u>	<u>12,585</u>	<u>6,909</u>	<u>6,909</u>	<u>8,409</u>
Cash and cash equivalents at end of the year/period . . . . .		<u>12,585</u>	<u>6,909</u>	<u>8,409</u>	<u>7,951</u>	<u>10,002</u>



## II. NOTES TO THE FINANCIAL INFORMATION

### 1 General information, reorganisation and basis of presentation

#### 1.1 General Information

NIRAKU GC HOLDINGS, INC.\* (the "Company") was incorporated in Japan under the Japan Companies Act with limited liability on 10 January 2013. The registered address of the Company 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 and hotel operations (the "Listing Business") in Japan.

This Financial Information is presented in millions of Japanese Yen ("¥"), unless otherwise stated.

#### 1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as described below, the Listing Business was carried out by Niraku Corporation, Nexia Inc. and Niraku Merrist Corporation (collectively the "Operating Companies"). Before the completion of the Reorganisation, the Operating Companies were collectively controlled by Mr. Hisanori Taniguchi (the "Chairman") and (1) a group of natural persons, namely Mr. Tatsuo Taniguchi, Mr. Masataka Taniguchi, Mr. Yoshihiro Tei, Mr. Mitsuhiro Tei<sup>(1)</sup>, Mr. Motohiro Tei<sup>(1)</sup>, Ms. Eijun Tei<sup>(1)</sup>, Ms. Rika Tei<sup>(1)</sup> and Ms. Noriko Kaneshiro, each being a family member of the Chairman; and (2) corporate entities, namely Jukki Limited, Densho Limited, Echo Limited, Daiki Limited, Hokuyo Kanko Limited and KAWASHIMA Co., Ltd., each being an entity controlled by the family members of the Chairman (collectively, the "Controlling Shareholders") who owned and controlled the Operating Companies throughout the Relevant Periods.

In preparation for listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited, the following transactions were carried out:

- (i) On 10 August 2012, the board of directors of Niraku Corporation resolved to repurchase 250,000 issued shares from its non-controlling shareholders for cash consideration of approximately ¥600 million (Note 25 (e)).
- (ii) On 10 January 2013, the Company was incorporated in Japan. Upon incorporation, one class-A share and one common share were allotted and issued to the Chairman.

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(1) Mr. Mitsuhiro Tei, Mr. Motohiro Tei, Ms. Eijun Tei and Ms. Rika Tei inherited their interests in the Company from the estate of the late Mr. Tateo Taniguchi, their father and sibling of the Chairman in October 2014.

- (iii) On 20 February 2013, the board of directors of Niraku Corporation resolved to repurchase 161,000 issued shares from the Densho Limited, Echo Limited, Daiki Limited and Hokuyo Kanko Limited for a total cash consideration of approximately ¥531 million (Note 25 (e)). On 24 May 2012, Nexia Inc. which was controlled by the certain parties among the Controlling Shareholders, resolved to repurchase 300 issued shares from one of its non-controlling shareholders for a cash consideration of approximately ¥12 million (Note 25 (e)).
- (iv) On 1 February 2013, the Company purchased 1,040,000 issued shares of Niraku Corporation from Mr. Tatsuo Taniguchi, Mr. Masataka Taniguchi, Mr. Yoshihiro Tei, Mr. Tateo Taniguchi and Mrs. Kyoko Taniguchi for cash consideration of approximately ¥3,432 million (Note 25 (e)). Since then, the Company held 21.1% equity interest in Niraku Corporation.
- (v) On 31 March 2013, Niraku Corporation cancelled 411,000 issued shares repurchased with the board of directors' approval on 10 August 2012 and 20 February 2013. On the same date, Nexia Inc. cancelled 300 issued shares repurchased with the board of directors' approval on 24 May 2012.
- (vi) On 1 April 2013, the Company allotted and issued 3,895,000 shares to the then shareholders of Niraku Corporation in exchange for 3,895,000 issued shares of Niraku Corporation, representing 78.9% of total issued shares of Niraku Corporation, on a one-to-one basis. Since then, Niraku Corporation became a wholly-owned subsidiary of the Company and the Controlling Shareholders owned 93.2% equity interest in the Company.
- (vii) On 29 July 2014, Niraku USA Inc. was incorporated in the state of Nevada, the United States of America. The company was wholly owned by Niraku Corporation upon incorporation.
- (viii) On 17 September 2014, Niraku Corporation transferred certain tangible assets totalling ¥1,110 million, which, among others, included the entire issued stock of Niraku USA Inc. to Niraku Investment Inc., a company wholly owned by the Company upon incorporation. On the same date, the Company then declared and distributed a distribution in specie out of its capital surplus by way of distributing 3,895,002 shares in Niraku Investment Inc., representing its entire number of issued shares to the Controlling Shareholders. Since then, the businesses of Niraku Investment Inc. and Niraku USA Inc. that were not related to the core business of pachinko hall operations under the Company were excluded from the Group.
- (ix) Immediately prior to 9 September 2014, a piece of land and its premises located in Nakano-ku, Tokyo ("Nakano Property") was jointly owned by the Chairman, Mr. Tatsuo Taniguchi and Mr. Masataka Taniguchi (the "Taniguchi Family"). The Group operates one of its pachinko halls on the Nakano Property. Since the Nakano Property is related to the Group's core business of pachinko and pachislot hall operations, the Company

had resolved to acquire the Nakano Property through Niraku Corporation in preparation for the Listing. On 9 September 2014, Niraku Corporation acquired the Nakano Property from the Taniguchi Family for cash consideration of approximately ¥382 million.

- (x) On 29 September 2014, Nexia Inc. repurchased 2,550 issued shares from Jukki Limited, Densho Limited, Hokuyo Kanko Limited and KAWASHIMA Co., Ltd. for cash consideration of approximately ¥497 million and Nexia Inc. cancelled all of these shares on 30 September 2014. On 29 September 2014, Niraku Corporation purchased 150 issued shares of Nexia Inc. from Mr. Tatsuo Taniguchi for cash consideration of approximately ¥29 million. Upon completion of these transactions, Nexia Inc. became an indirectly wholly-owned subsidiary of the Company through Niraku Corporation.
- (xi) Upon the completion of the Reorganisation on 30 September 2014, the Company became the holding company of the subsidiaries now comprising the Group.

Upon the completion of the Reorganisation, the Company has direct or indirect interests in the following subsidiaries:

Name	Country and date of incorporation	Principal activities	Type of legal status	Issued and paid up capital	Effective interest held as at 31 March			Effective interest held as at 30 September
					2012	2013	2014	2014
<b>Directly held</b>								
Niraku Corporation	Japan 27 August 1969	Pachinko and pachislot hall operations	Limited liability company	257 million Japanese Yen	100%	100%	100%	100%
<b>Indirectly held</b>								
Nexia Inc.	Japan 19 June 2009	Property investment	Limited liability company	30 million Japanese Yen	100%	100%	100%	100%
Niraku Merrist Corporation	Japan 24 February 2010	Cleaning service provision	Limited liability company	5 million Japanese Yen	100%	100%	100%	100%
JIN Corporation*	Japan 15 June 2012	Pachinko and pachislot hall operations	Limited liability company	10 million Japanese Yen	0%	100%	0%	0%

\* The Group acquired all shares of JIN Corporation, a company operating pachinko and pachislot halls in Japan on 15 June 2012 (Note 36). JIN Corporation was merged into Niraku Corporation on 1 October 2013.

The statutory financial statements of Niraku Corporation for the years ended 31 March 2012, 2013 and 2014 were audited by PricewaterhouseCoopers, Aarata. No audited financial statements were issued for Nexia Inc., Niraku Merrist Corporation and JIN Corporation as their financial statements are not required to be audited under the Japan Companies Act.

### **1.3 Basis of presentation**

Immediately prior to and after the Reorganisation, the Listing Business is held by the Controlling Shareholders. The Listing Business is mainly conducted through Niraku Corporation, Nexia Inc. and Niraku Merrist Corporation which are the operating entities of the Group. Pursuant to the Reorganisation, the Listing Business is transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The transactions as described in Note 1.2 above are merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the consolidated financial information of the companies now comprising the Group is prepared in accordance with IFRS 10 "Consolidated Financial Statements" issued by the International Accounting Standard Board (the "IASB"), using the carrying values of the Listing Business under the Controlling Shareholders for all periods presented.

For companies acquired from during each of the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, they are included in the Financial Information of the Group from the date of the acquisition.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies now comprising the Group are eliminated on consolidation.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

### **2.1 Basis of preparation**

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the IASB and has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) which are carried at fair values.

The preparation of Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

(a) *New and amended standards early adopted by the Group*

The following standard has been early adopted by the Group for the first time for the financial year beginning on or after 1 April 2011:

IFRS 9 (2014), "Financial instruments" replaces the whole of IAS 39. IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

IFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS39.

The above standard is mandatory effective for annual periods beginning on or after 1 January 2018. The Group has decided to adopt IFRS 9 (2014) from 1 April 2011, being its date of transition to IFRS.

(b) *New standards and amendments to existing standards not yet adopted by the Group*

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Group’s accounting periods beginning on or after 1 April 2015 or later periods, but have not been early adopted by the Group.

		<b>Effective for accounting year beginning on or after</b>
IAS 1 (Amendment) . . . . .	Presentation of financial statements	1 January 2016
IAS 16 and IAS 38 (Amendment) . . . . .	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 19 (2011) (Amendment) . . .	Defined benefit plans: Employee contributions	1 July 2014
IFRS 14 . . . . .	Regulatory deferral accounts	1 January 2016
IFRS 15 . . . . .	Revenue from contracts with customers	1 January 2017
Annual improvements 2012 to 2013 . . . . .	Improvements to IASs and IFRS	1 July 2014
Annual Improvements Project . .	Annual Improvements 2012-2014 Cycle	1 January 2016

*New Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company’s first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the Financial Information in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the Financial Information will be affected.

Management is in the process of making an assessment on the impact of these standards and amendments to existing IFRS and is not yet in a position to state whether they will have a significant impact on the Group’s results of operations and financial position.

**2.2 Subsidiaries**

**Consolidation**

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls entities when the Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combination under common control*

The Financial Information incorporates the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control combination, where there is a shorter period, regardless of the date of the common control combination.

(b) *Business combination other than under common control*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(c) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

### **Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee's net assets including goodwill.

### **2.3 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive director of the Company that makes strategic decisions.

### **2.4 Foreign currency translation**

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Japanese Yen, which is the Company's functional currency and the Group's presentation currency.



(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

## **2.5 Property, plant and equipment**

Land and buildings comprise mainly pachinko and pachislot halls and offices. All property, plant and equipment are stated at historical cost less depreciation, except freehold land which is not subject to amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is stated at cost less impairment loss. It is not depreciated until completion of the construction and the relevant assets are available for use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings	20 to 40 years
- Leasehold improvement	Shorter of lease term or useful lives
- Equipment and tools	2 to 20 years
- Motor vehicles	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "Other losses, net" in the profit or loss.

## **2.6 Investment properties**

Investment properties, principally comprising land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. The Group adopts the alternative treatment by using the cost model provided under the IAS 40 "Investment

Property". Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of investment properties, except for the freehold land which is not subject to depreciation, is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives of 27 to 31 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## **2.7 Intangible assets**

### *(a) Goodwill*

Goodwill arises on the acquisition of pachinko and pachislot halls represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### *(b) Computer software*

Computer software is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 5 years.

## **2.8 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair

value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## **2.9 Financial assets**

### *(a) Classification*

The Group classifies its financial assets in the following categories according to IFRS 9 "Financial Instruments": financial assets at amortised costs and financial assets at fair value. Management determines the classification of its financial assets at initial recognition. This classification depends on whether the financial asset is a debt or equity instrument.

#### Debt instruments

Financial assets at amortised costs are debt instruments that meet the Group's business model for holding the investments to collect contractual cash flows and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The nature of any derivatives embedded in the debt instrument are considered in determining whether the cash flows of the instrument are solely payment of principal and interest on the principal outstanding and are not accounted for separately. Other debt instruments are held-for-trading and classified as financial assets at fair value through profit or loss.

#### Equity instruments

All the Group's equity instruments are measured at fair value. Equity instruments that are held for trading are measured at fair value through profit or loss. For all other equity instruments, the Group has made an irrevocable election at initial recognition to recognise changes in their fair value through other comprehensive income.

Financial assets are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting periods. These are classified as non-current assets.

### *(b) Recognition, derecognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statements of comprehensive income.

Debt instruments that fulfil both the business model and the cash flow characteristic conditions are measured at amortised cost using the effective interest method. Other debt instruments are held-for-trading and measured at fair value through profit or loss.

Equity instruments are measured at fair value through profit or loss, except where the equity instruments are not held for trading and are irrevocably elected to measure at fair value through other comprehensive income at initial recognition, in which case, those financial assets are measured at fair value through other comprehensive income and there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

The Group reclassifies its financial assets when and only when its business model for managing those financial assets changes.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the consolidated statements of comprehensive income within 'Other losses - net' in the period in which they arise. Changes in the fair value of financial assets through other comprehensive income are recognised in other comprehensive income except for the impairment loss (if any) on debt instruments which are accounted for in profit or loss.

Gain or loss (if any) on derecognition or impairment (if any) of debt instruments at amortised cost is recognised in profit or loss.

Interest income from debt instruments at fair value through profit or loss are recognised in the profit or loss. Dividend income from equity instruments included in financial assets at fair value and fair value through other comprehensive income are recognised in the profit or loss when the Group's right to receive payments is established.

## **2.10 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

## **2.11 Impairment of financial assets**

Impairment charges on the Group's investment in debt instruments at amortised cost are calculated based on an expected credit loss model. The Group considers these debt instruments as trade receivables in nature and do not have a significant financing component. Therefore, the Group elected to recognise lifetime expected credit losses of these debt instruments as provision for impairment allowance at the end of each reporting period. The Group applies a provision

matrix, which is prepared by using historical loss experience on its trade receivables and adjusted for information about current conditions and reasonable and supportable forecasts of future economic conditions, to estimate the lifetime expected credit losses. Impairment charge/reversal is recognised in the profit or loss.

### **2.12 Inventories**

Inventories represent supplies, including uninstalled pachinko and pachislot machines with useful life typically less than one year, and other consumables which are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

### **2.13 Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### **2.14 Cash and cash equivalents**

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### **2.15 Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### **2.16 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.17 Borrowings and borrowing costs**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**2.18 Current and deferred income tax**

The tax expense comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statements of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statements of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**2.19 Employee benefits**

(a) *Pension obligations*

The Group operates a defined contribution plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group has established a defined contribution plan for its eligible employees. The assets of the plan are held in separate trustee-administered funds. Contributions to the plan by the Group are calculated as a percentage of employees' monthly basic salaries. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statements of financial position date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(d) *Long service payments*

Employees who have completed the required number of years of service to the Group are eligible for long service payments.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the reporting date.

## **2.20 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.



Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### **2.21 Revenue recognition**

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from pachinko and pachislot business represents the gross pay-ins, net of the gross payouts to customers. Gross pay-ins represents the amount received from customers for rental pachinko balls and pachislot tokens. Gross payouts represents the aggregate cost of G-prizes and general prizes exchanged by customers. G-prizes are decorative cards with a small embedded piece of gold or silver or coin-shaped pendants of gold or silver which can be sold by customers to a G-prize buyer for cash, and general prizes are generally the types of goods sold in convenience stores, such as snacks, drinks and cigarettes.

Customers rent pachinko balls and pachislot tokens to play the games, and the balls or tokens won can be either exchanged for prizes or saved for subsequent visits. The Group offers both general prizes and G-prizes. Customers who opt to claim G-prizes in exchange for the pachinko balls and pachislot tokens may sell their G-prizes to an independent prize buyer for cash outside of the pachinko hall. Revenue is recognised at the end of each player's visit to a machine.

Hotel income is recognised at the time of occupancy.

Vending machine income is recognised in on a straight line basis over the accounting periods covered by the terms and conditions as stipulated in the agreement. Contingent vending machine income is recognised in the accounting period in which they are earned.

Rental income from investment properties is recognised on a straight-line basis over the term of the leases.

Interest income is recognised on a time-proportion basis using the effective interest method.

Income from expired prepaid integrated circuit ("IC") and membership cards is recognised upon the expiry of the usage period.

Dividend income is recognised when the right to receive payment is established.

Sundry income is recognised when the right to receive payment is established.

**2.22 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected lives of the related assets.

**2.23 Leases***(a) As lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statements of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

*(b) As lessor*

When the Company leases out assets under operating leases, the assets are included in the consolidated statements of financial position according to the nature of the assets. Revenue arising from assets leased out under operating leases is recognised over the term of the lease on a straight-line basis.

## **2.24 Dividend distribution**

Dividend distribution to the Company's/certain subsidiaries' shareholders is recognised as a liability in the Group's, the Company's and certain subsidiaries' financial statements in the period in which the dividends are approved by the Company's/certain subsidiaries' shareholders or directors, where appropriate.

## **3 Financial risk management**

### **3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments for speculative purposes.

Risk management is carried out by management of the Group. Formal and informal management meetings are held to identify significant risks and to develop procedures to deal with any risks in relation to the Group's businesses.

#### **(a) Market risk**

##### *(i) Foreign exchange risk*

The Group has no significant foreign exchange risk as its business transactions, recognised assets and liabilities are principally denominated in Japanese Yen, its functional currency. Accordingly, sensitivity analysis has not been disclosed. The Group currently does not have any hedge instruments to hedge against other foreign currency transactions.

##### *(ii) Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from bank balances and borrowings which are carried at variable rates, which expose the Group to cash flow interest rate risk.

As at 31 March 2012, 2013 and 2014, and as at 30 September 2014, if interest rates were increased or decreased by 25 basis points and all other variables were held constant, the Group's pre-tax profit would decrease or increase by approximately ¥3 million, ¥6 million, ¥5 million and ¥6 million respectively as a result of increase or decrease in net interest expense.

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses derivatives such as interest rate swaps to manage its interest rate exposure. The Group's main interest rate exposure relates to Japanese Yen-denominated borrowings. In the opinion of the directors, fair value interest rate risk is low as no significant interest rate swaps were entered during the Relevant Periods, and accordingly, sensitivity analysis has not been disclosed.

(iii) *Price risk*

The Group is exposed to equity securities price risk because of investments in listed securities held by the Group which are classified on the consolidated statements of financial position as financial assets at fair value through other comprehensive income.

The table below summarises the impact of increases/decreases of the share prices of underlying financial instruments on the Group's equity. The analysis is based on the assumption that the share prices of the underlying financial instruments had increased or decreased by 5% with all other variables held constant.

	Year ended 31 March			Six months ended
	2012	2013	2014	30 September
	¥ million	¥ million	¥ million	2014
<b>Impact on other components of equity</b>				
Share prices:				
- increase by 5% . . . . .	7	45	79	73
- decrease by 5% . . . . .	<u>(7)</u>	<u>(45)</u>	<u>(79)</u>	<u>(73)</u>

(b) **Credit risk**

Credit risk arises mainly from cash deposited at banks, trade receivables, deposits and other receivables, financial assets at fair value through profit or loss and through other comprehensive income.

In respect of cash deposited at banks and financial assets at fair value through profit or loss and through other comprehensive income, the credit risk is considered to be low as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Approximately 99% of the Groups revenue is received in cash. The Group's credit risk mainly arises from vending machine income receivable from vending machines providers.

As at 31 March 2012, 2013, 2014 and as at 30 September 2014, top 5 customers of the Group accounted for approximately 58%, 53%, 56% and 60%, respectively, to the trade receivables of the Group. The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers. Management makes periodic assessment on the recoverability of trade and other

receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the Financial Information.

(c) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position.

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets and receivables; and long term financing including long-term borrowings. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the Group's and the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying balances as the impact of discounting is not significant.

	<b>Within 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	¥ million	¥ million	¥ million	¥ million	¥ million
<b>The Group</b>					
<b>As at 31 March 2012</b>					
Trade payables . . . . .	347	—	—	—	347
Other payables (excluding accruals) . . . . .	2,186	4	43	2,655	4,888
Borrowings . . . . .	7,335	1,842	1,478	1,996	12,651
Obligations under finance leases . . . . .	2,635	1,206	2,185	1,340	7,366
Amount due to a related party . .	100	—	—	—	100
Amount due to a related company . . . . .	—	—	45	—	45
	<u>12,603</u>	<u>3,052</u>	<u>3,751</u>	<u>5,991</u>	<u>25,397</u>

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
<b>As at 31 March 2013</b>					
Trade payables .....	382	—	—	—	382
Other payables (excluding accruals) .....	2,096	4	45	2,885	5,030
Borrowings .....	3,232	1,577	3,109	3,681	11,599
Obligations under finance leases .....	2,624	1,331	2,142	1,192	7,289
	<u>8,334</u>	<u>2,912</u>	<u>5,296</u>	<u>7,758</u>	<u>24,300</u>
<b>As at 31 March 2014</b>					
Trade payables .....	201	—	—	—	201
Other payables (excluding accruals) .....	1,123	4	45	2,911	4,083
Borrowings .....	3,281	2,395	4,061	3,178	12,915
Obligations under finance leases .....	2,536	1,521	2,383	2,449	8,889
	<u>7,141</u>	<u>3,920</u>	<u>6,489</u>	<u>8,538</u>	<u>26,088</u>
<b>As at 30 September 2014</b>					
Trade payables .....	145	—	—	—	145
Other payables (excluding accruals) .....	2,718	4	41	2,948	5,711
Borrowings .....	4,288	2,902	4,466	3,053	14,709
Obligations under finance leases .....	3,065	1,357	1,835	1,754	8,011
Amount due to a related company .....	24	—	—	—	24
	<u>10,240</u>	<u>4,263</u>	<u>6,342</u>	<u>7,755</u>	<u>28,600</u>
<b>The Company</b>					
<b>As at 31 March 2013</b>					
Other payables (excluding accruals) .....	7	8	—	—	15
Borrowings .....	195	367	1,089	1,749	3,400
Amount due to a subsidiary . . . .	201	—	—	—	201
	<u>403</u>	<u>375</u>	<u>1,089</u>	<u>1,749</u>	<u>3,616</u>

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
<b>As at 31 March 2014</b>					
Other payables (excluding accruals) . . . . .	1	7	—	—	8
Borrowings . . . . .	369	367	1,088	1,396	3,220
	<u>370</u>	<u>374</u>	<u>1,088</u>	<u>1,396</u>	<u>3,228</u>
<b>As at 30 September 2014</b>					
Other payables (excluding accruals) . . . . .	55	7	—	—	62
Borrowings . . . . .	415	404	1,191	1,287	3,297
Amount due to a subsidiary . . . . .	701	—	—	—	701
Amount due to a related company . . . . .	24	—	—	—	24
	<u>1,195</u>	<u>411</u>	<u>1,191</u>	<u>1,287</u>	<u>4,084</u>

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group uses bank borrowings to finance its operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (include bank borrowings, amounts due to a related party, amounts due to related companies and obligations under finance leases) less cash and bank balances. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position, plus net debt, where applicable.

The Group's strategy was to maintain optimal gearing ratio which the gearing ratio is not higher than 60% as at each statements of financial position date. The gearing ratios as at 31 March 2012, 2013, 2014 and as at 30 September 2014 were as follows:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Borrowings (including amounts due to a related party and related companies) . . . . .	12,374	11,073	12,379	14,065
Obligations under finance leases . . . . .	6,527	6,552	7,619	6,898
Less: cash and bank balances (Note 23) . . . . .	(13,485)	(8,734)	(10,199)	(11,760)
Net debt . . . . .	5,416	8,891	9,799	9,203
Total equity . . . . .	18,648	17,852	21,800	20,879
Total capital . . . . .	24,064	26,743	31,599	30,082
Gearing ratio . . . . .	23%	33%	31%	31%

### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).



	Level 1	Level 2	Total
	¥ million	¥ million	¥ million
<b>As at 31 March 2012</b>			
<b>Assets</b>			
Financial assets at fair value through profit or loss			
- Debt securities . . . . .	—	429	429
Financial assets at fair value through other comprehensive income			
- Listed securities . . . . .	134	—	134
- Unlisted securities . . . . .	—	86	86
	<u>134</u>	<u>515</u>	<u>649</u>
<b>Liabilities</b>			
Derivative financial liabilities			
- Interest rate swaps . . . . .	—	55	55
	<u>—</u>	<u>55</u>	<u>55</u>
<b>As at 31 March 2013</b>			
<b>Assets</b>			
Financial assets at fair value through profit or loss			
- Debt securities . . . . .	—	496	496
- Unlisted securities . . . . .	—	50	50
Financial assets at fair value through other comprehensive income			
- Listed securities . . . . .	909	—	909
- Unlisted securities . . . . .	—	10	10
	<u>909</u>	<u>556</u>	<u>1,465</u>
<b>Liabilities</b>			
Derivative financial liabilities			
- Interest rate swaps . . . . .	—	44	44
	<u>—</u>	<u>44</u>	<u>44</u>
<b>As at 31 March 2014</b>			
<b>Assets</b>			
Financial assets at fair value through profit or loss			
- Debt securities . . . . .	—	601	601
- Unlisted securities . . . . .	—	100	100
Financial assets at fair value through other comprehensive income			
- Listed securities . . . . .	1,574	—	1,574
	<u>1,574</u>	<u>701</u>	<u>2,275</u>

	Level 1	Level 2	Total
	¥ million	¥ million	¥ million
<b>Liabilities</b>			
Derivative financial liabilities			
- Interest rate swaps . . . . .	—	48	48
<b>As at 30 September 2014</b>			
<b>Assets</b>			
Financial assets at fair value through profit or loss			
- Debt securities . . . . .	—	597	597
- Unlisted securities . . . . .	—	100	100
Financial assets at fair value through other comprehensive income			
- Listed/unlisted securities . . . . .	1,474	2	1,476
	<u>1,474</u>	<u>699</u>	<u>2,173</u>
<b>Liabilities</b>			
Derivative financial liabilities			
- Interest rate swaps . . . . .	—	38	38

## (a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the statements of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 represent listed equity investments classified as fair value through other comprehensive income which were not held for trading purpose.

## (b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As of 31 March 2012, 2013 and 2014 and 30 September 2014, instruments included in level 2 comprise bonds, trust funds and interest rate swap issued by financial institution in Japan which were classified as financial assets at fair value through profit or loss.

There were no transfers between levels 1 and 2 during the Relevant Periods.

### **3.4 Offsetting financial assets and financial liabilities**

As at 31 March 2012, 2013 and 2014, and as at 30 September 2014, there were no financial assets or financial liabilities which were subject to offsetting, enforceable master netting or similar agreements.

## **4 Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### **(a) Income taxes**

The Group is subject to income taxes in Japan. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### **(b) Fair value of financial instruments**

The fair value of financial instruments that are not traded in an active market (for example, unlisted securities) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

### **(c) Impairment assessment of property, plant and equipment**

The Group has substantial investments in property, plant and equipment. Judgement is required in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable; (2) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or value-in-use, which is the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions used to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment change to the profit or loss.

(d) **Classification of leases**

The Group classifies leases into finance leases or operating leases in accordance with the accounting policies stated in Note 2.23. Classification as a finance lease or operating lease determines whether the leased asset is capitalised and recognised in the consolidated statement of financial position or charged to the profit or loss. Determining whether a lease transaction is a finance lease or an operating lease is a complex issue and requires substantial judgement as to whether the lease agreement transfers substantially all the risks and rewards of ownership to or from the Group. Careful and considered judgement is required on various complex aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether renewal options are included in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

**5 Revenue and segment information**(a) **Revenue**

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million (unaudited)	¥ million
<b>Revenue</b>					
Gross pay-ins . . . . .	224,968	242,217	236,449	120,674	90,989
Less: gross payouts . . . . .	(195,340)	(210,298)	(203,455)	(104,682)	(75,798)
Revenue from pachinko and pachislot hall business . . . . .	29,628	31,919	32,994	15,992	15,191
Vending machine income . . . . .	724	748	704	362	301
Revenue from hotel operations . . . . .	—	84	149	75	80
	<u>30,352</u>	<u>32,751</u>	<u>33,847</u>	<u>16,429</u>	<u>15,572</u>

(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 director of the Company. The executive director considers 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 income/(expenses) for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as this Financial Information.

The management has identified two reportable segments based on the types of services, namely (i) pachinko and pachislot hall operations; and (ii) others.

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, trade receivables, prepayments, deposits and other receivables, pledged deposits and cash and bank balances. They exclude deferred income tax assets, amounts due from directors and a shareholder, amounts due from related companies 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 director for the years ended 31 March 2012, 2013 and 2014, and for the six months ended 30 September 2013 and 2014 are as follows:

	Year ended 31 March 2012		
	Pachinko and pachislot hall operations	Others	Total
	¥ million	¥ million	¥ million
<b>Segment revenue from external customers</b> .....	30,352	—	30,352
<b>Segment results</b> .....	6,445	(138)	6,307
Corporate expenses .....			—
Profit before income tax .....			6,307
Income tax expense .....			(2,978)
<b>Profit for the year</b> .....			<u>3,329</u>
<b>Other segment items</b>			
Depreciation and amortisation expenses .....	(2,041)	(13)	(2,054)
Finance income .....	66	—	66
Finance costs .....	(794)	—	(794)
Impairment loss on property, plant and equipment .....	(124)	—	(124)
Capital expenditures .....	<u>2,584</u>	<u>1</u>	<u>2,585</u>

## Year ended 31 March 2013

	Year ended 31 March 2013		
	Pachinko and pachislot hall operations	Others	Total
	¥ million	¥ million	¥ million
<b>Segment revenue from external customers</b> .....	32,667	84	32,751
<b>Segment results</b> .....	6,508	(12)	6,496
Corporate expenses .....			(11)
Profit before income tax .....			6,485
Income tax expense .....			(2,720)
<b>Profit for the year</b> .....			<u>3,765</u>
<b>Other segment items</b>			
Depreciation and amortisation expenses .....	(2,006)	(19)	(2,025)
Finance income .....	63	—	63
Finance costs .....	(720)	—	(720)
Capital expenditures .....	<u>3,261</u>	<u>211</u>	<u>3,472</u>

## Year ended 31 March 2014

	Year ended 31 March 2014		
	Pachinko and pachislot hall operations	Others	Total
	¥ million	¥ million	¥ million
<b>Segment revenue from external customers</b> .....	33,698	149	33,847
<b>Segment results</b> .....	6,115	1	6,116
Corporate expenses .....			(108)
Profit before income tax .....			6,008
Income tax expense .....			(2,310)
<b>Profit for the year</b> .....			<u>3,698</u>
<b>Other segment items</b>			
Depreciation and amortisation expenses .....	(2,233)	(22)	(2,255)
Finance income .....	58	—	58
Finance costs .....	(744)	—	(744)
Impairment loss on property, plant and equipment .....	(620)	—	(620)
Capital expenditures .....	<u>5,102</u>	<u>2</u>	<u>5,104</u>

## Six months ended 30 September 2013

	Six months ended 30 September 2013		
	Pachinko and pachislot hall operations	Others	Total
	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)
<b>Segment revenue from external customers</b> .....	16,354	75	16,429
<b>Segment results</b> .....	2,705	6	2,711
Corporate expenses .....			(28)
Profit before income tax .....			2,683
Income tax expense .....			(1,060)
<b>Profit for the period</b> .....			<u>1,623</u>
<b>Other segment items</b>			
Depreciation and amortisation expenses .....	(1,116)	(11)	(1,127)
Finance income .....	28	—	28
Finance costs .....	(368)	—	(368)
Capital expenditures .....	<u>3,706</u>	<u>—</u>	<u>3,706</u>

## Six months ended 30 September 2014

	Six months ended 30 September 2014		
	Pachinko and pachislot hall operations	Others	Total
	¥ million	¥ million	¥ million
<b>Segment revenue from external customers</b> .....	15,492	80	15,572
<b>Segment results</b> .....	1,950	(4)	1,946
Corporate expenses .....			(319)
Profit before income tax .....			1,627
Income tax expense .....			(690)
<b>Profit for the period</b> .....			<u>937</u>
<b>Other segment items</b>			
Depreciation and amortisation expenses .....	(1,006)	(12)	(1,018)
Finance income .....	88	—	88
Finance costs .....	(357)	—	(357)
Capital expenditures .....	<u>1,169</u>	<u>70</u>	<u>1,239</u>

The segment assets as at 31 March 2012, 2013 and 2014 and at 30 September 2014 are as follows:

	<b>Pachinko and pachislot hall operations</b>	<b>Others</b>	<b>Total</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
<b>As at 31 March 2012</b>			
<b>Segment assets</b> .....	41,672	536	42,208
Unallocated assets .....			1,412
Deferred income tax assets .....			1,563
<b>Total assets</b> .....			<u>45,183</u>
<b>As at 31 March 2013</b>			
<b>Segment assets</b> .....	38,097	635	38,732
Unallocated assets .....			1,850
Deferred income tax assets .....			1,612
<b>Total assets</b> .....			<u>42,194</u>
<b>As at 31 March 2014</b>			
<b>Segment assets</b> .....	42,020	618	42,638
Unallocated assets .....			2,805
Deferred income tax assets .....			1,462
<b>Total assets</b> .....			<u>46,905</u>
	<b>Pachinko and pachislot hall operations</b>	<b>Others</b>	<b>Total</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
<b>As at 30 September 2014</b>			
<b>Segment assets</b> .....	43,143	683	43,826
Unallocated assets .....			3,222
Deferred income tax assets .....			2,038
<b>Total assets</b> .....			<u>49,086</u>

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 31 March 2012, 2013 and 2014, and for the six months ended 30 September 2013 and 2014.



The Group is domiciled in Japan and all non-current assets of the Group as at 31 March 2012, 2013 and 2014 and as at 30 September 2014 are located in Japan.

## 6 Other income and other losses, net

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million	¥ million
				(unaudited)	
<b>Other income</b>					
Rental income . . . . .	89	161	149	76	74
Income from expired IC and membership cards . . . . .	36	41	40	21	18
Dividend income . . . . .	4	29	67	35	34
Compensation and subsidies (Note 1) . . . . .	101	102	44	10	598
Income from scrap sales of used pachinko and pachislot machines . . . . .	94	59	51	34	68
Recovery from insurance companies (Note 2) . . . . .	788	25	—	—	—
Others . . . . .	3	29	27	6	9
	<u>1,115</u>	<u>446</u>	<u>378</u>	<u>182</u>	<u>801</u>
<b>Other losses, net</b>					
(Loss)/gain on fair value for financial assets at fair value through profit or loss . . . . .	(8)	11	5	2	4
(Loss)/gain on disposal of financial assets at fair value through profit or loss . . . . .	—	(28)	—	5	—
Gain/(loss) on fair value for interest rate swaps . . . . .	44	11	(4)	(3)	10
Loss on disposal of property, plant and equipment . . . . .	(69)	(24)	(101)	(85)	(39)
Loss on fire incident (Note 2) . . .	(468)	—	—	—	—
Net exchange (loss)/gain . . . . .	(3)	10	3	—	—
	<u>(504)</u>	<u>(20)</u>	<u>(97)</u>	<u>(81)</u>	<u>(25)</u>

Note 1: Compensation and subsidies were mainly received from the government and Tokyo Electric Power Company for the massive earthquake and tsunami that occurred on 11 March 2011 (the "Great East Japan Earthquake"). The disaster caused significant damages to certain property, plant and equipment and inventories in pachinko and pachislot halls located principally in the north-eastern Japan.

Note 2: On 3 May 2011, one of the Group's pachinko and pachislot halls temporarily closed operations due to a fire accident. This fire accident caused significant damage to certain property, plant and equipment and inventories amounted to ¥468 million in the pachinko and pachislot hall. In addition, the fire accident impacted the operation of the pachinko and pachislot hall.

The Group has insurance policies which cover certain damage directly caused by the fire accident. The insurance policies cover the damage and costs associated with property, plant and equipment and inventories and provide business interruption coverage, including loss of profits. For the year ended 31 March 2012, insurance claim in the amounts of ¥788 million was agreed by the insurance carriers and were recorded as other income in the consolidated statements of comprehensive income.

## 7 Hall operating expenses and administrative and other operating expenses

	Note	Year ended 31 March			Six months ended 30 September	
		2012	2013	2014	2013	2014
		¥ million	¥ million	¥ million	¥ million	¥ million
						(unaudited)
Auditors' remuneration . . . . .		26	29	30	14	15
Employee benefits expenses	8					
- Hall operations. . . . .		4,818	4,594	4,626	2,362	2,417
- Administrative and others . . . . .		1,331	1,891	1,318	654	1,331
Operating lease rental expense in respect of land and buildings . . . . .		2,295	2,362	2,483	1,219	1,399
Depreciation of property, plant and equipment . . . . .		1,995	1,980	2,213	1,106	996
Depreciation of investment properties . . . . .		14	14	14	7	7
Amortisation of intangible assets . . . . .		45	31	28	14	15
Reinstatement expenses . . . . .		38	21	21	11	11
Recruitment expenses . . . . .		47	258	278	78	71
Travelling and transportation . . . . .		96	124	138	68	71
Other taxes and duties . . . . .		389	389	403	39	75
Repairs and maintenance . . . . .		296	326	335	205	118
Utilities expenses . . . . .		834	979	1,081	543	574
Consumables and cleaning . . . . .		1,247	1,471	1,561	864	754
Outsourcing service expenses . . . . .		1,002	1,181	1,223	630	530
G-Prize procurement expenses to wholesalers . . . . .		755	774	804	401	399
Pachinko and pachislot machines expenses (Note) . . . . .		7,161	7,948	8,216	4,163	4,482
Advertising expenses . . . . .		939	1,231	1,362	733	680

Note	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million	¥ million
				(unaudited)	
Impairment loss on property, plant and equipment . . . . .	124	—	620	—	—
Write-off/(reversal) of doubtful debts . . . . .	116	(102)	2	—	—
Legal and professional fees. .	9	16	23	13	261
Others . . . . .	351	518	655	383	246
	<u>23,928</u>	<u>26,035</u>	<u>27,434</u>	<u>13,507</u>	<u>14,452</u>

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

## 8 Employee benefits expenses (including directors' emoluments)

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million	¥ million
				(unaudited)	
Salaries, bonuses and allowances . . .	4,994	4,737	4,772	2,385	2,505
Pension costs - defined contribution plan . . . . .	62	61	61	31	33
Other employee benefits . . . . .	1,093	1,687	1,111	600	1,210
	<u>6,149</u>	<u>6,485</u>	<u>5,944</u>	<u>3,016</u>	<u>3,748</u>

### (a) Pension costs – defined contribution plan

The Company and its subsidiaries operate a defined contribution plan which covers all full-time employees and directors. No forfeited contribution was incurred during the Relevant Periods.

**(b) Directors' emoluments**

The remuneration of every director of the Company paid/payable by the Group for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014 is set out below:

**Year ended 31 March 2012**

Name	Fee	Salaries, allowances and other benefits	Discretionary bonuses	Defined contribution pension costs	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
Director					
Hisanori Taniguchi . . . . .	42	—	3	1	46

**Year ended 31 March 2013**

Name	Fee	Salaries, allowances and other benefits	Discretionary bonuses	Defined contribution pension costs	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
Directors					
Hisanori Taniguchi . . . . .	44	—	—	*	44
Tatsuo Taniguchi . . . . .	36	—	—	*	36
Hidenori Morota . . . . .	17	—	—	*	17
Akinori Ohishi . . . . .	12	—	—	*	13
Independent non-executive director					
Hiroaki Morita . . . . .	1	—	—	—	1
	110	—	—	2	110

## Year ended 31 March 2014

Name	Fee	Salaries, allowances and other benefits	Discretionary bonuses	Defined contribution pension costs	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
Directors					
Hisanori Taniguchi . . . . .	44	—	—	1	45
Tatsuo Taniguchi . . . . .	36	—	—	1	37
Hidenori Morota . . . . .	22	—	—	1	23
Akinori Ohishi . . . . .	17	—	—	1	18
Independent non-executive director					
Hiroaki Morita . . . . .	4	—	—	—	4
	123	—	—	4	127
	123	—	—	4	127

## Six months ended 30 September 2013

Name	Fee	Salaries, allowances and other benefits	Discretionary bonuses	Defined contribution pension costs	Total
	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)
Directors					
Hisanori Taniguchi . . . . .	22	—	—	*	22
Tatsuo Taniguchi . . . . .	18	—	—	*	18
Hidenori Morota . . . . .	11	—	—	*	11
Akinori Ohishi . . . . .	8	—	—	*	8
Independent non-executive director					
Hiroaki Morita . . . . .	2	—	—	—	2
	61	—	—	1	61
	61	—	—	1	61

## Six months ended 30 September 2014

Name	Fee	Salaries, allowances and other benefits	Discretionary bonuses	Defined contribution pension costs	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
Directors					
Hisanori Taniguchi . . . . .	36	—	—	*	36
Tatsuo Taniguchi . . . . .	21	600	—	*	621
Hidenori Morota . . . . .	12	—	—	*	12
Akinori Ohishi . . . . .	11	—	—	*	11
Independent non-executive directors					
Hiroaki Morita . . . . .	2	—	—	—	2
Norio Nakayama . . . . .	1	—	—	—	1
Masaharu Togo . . . . .	1	—	—	—	1
External director					
Hiroshi Bannai . . . . .	1	—	—	—	1
	<u>85</u>	<u>600</u>	<u>—</u>	<u>1</u>	<u>685</u>

\* Insignificant amount less than ¥1 million

Directors' dates of appointment and resignation are as follows:

Name	Appointed on	Resigned on
Executive directors		
Hisanori Taniguchi . . . . .	28 February 1987	—
Tatsuo Taniguchi . . . . .	10 January 2013	25 June 2014
Hidenori Morota . . . . .	10 January 2013	25 June 2014
Akinori Ohishi . . . . .	10 January 2013	25 June 2014
Independent non-executive directors		
Hiroaki Morita . . . . .	10 January 2013	—
Norio Nakayama . . . . .	25 June 2014	—
Masaharu Togo . . . . .	25 June 2014	—
Hiroaki Kumamoto . . . . .	28 November 2014	—
External director (Note)		
Hiroshi Bannai . . . . .	25 June 2014	31 October 2014

Note: Mr. Hiroshi Bannai was an external director in accordance with the requirements under the Japan Companies Act of the Company prior to his retirement on 31 October 2014.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the Group and/or their capacity as directors of the Company during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any emoluments during the Relevant Periods.

**(c) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014 include 1, 4, 4, 4 and 4 directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4, 1, 1, 1 and 1 individuals during the Relevant Periods are as follows:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million	¥ million
				(unaudited)	
Salaries allowances and other benefits .....	113	618	10	5	5
Bonuses .....	4	—	2	1	1
Pension cost - defined contribution plan .....	2	—	—	—	—
	<u>119</u>	<u>618</u>	<u>12</u>	<u>6</u>	<u>6</u>

Save as disclosed in the directors' emoluments, the number of highest paid individuals whose remuneration fell within the following band is as follows:

Emolument bands	Number of individuals				
	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
HK\$500,001 to HK\$1,000,000 (equivalent to approximately ¥5,000,001 to ¥10,000,000) . . . . .	—	—	—	1	1
HK\$1,000,001 to HK\$1,500,000 (equivalent to approximately ¥10,000,001 to ¥15,000,000) . . . . .	—	—	1	—	—
HK\$1,500,001 to HK\$2,000,000 (equivalent to approximately ¥15,000,001 to ¥20,000,000) . . . . .	1	—	—	—	—
HK\$2,000,001 to HK\$2,500,000 (equivalent to approximately ¥20,000,001 to ¥25,000,000) . . . . .	1	—	—	—	—
HK\$3,500,001 to HK\$4,000,000 (equivalent to approximately ¥35,000,001 to ¥40,000,000) . . . . .	2	—	—	—	—
HK\$61,500,001 to HK\$62,000,000 (equivalent to approximately ¥615,000,001 to ¥620,000,000) . . . . .	—	1	—	—	—
	<u>4</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>



No inducement for joining the Group or compensation for loss of office was paid or payable to any five highest paid individuals during the Relevant Periods.

## 9 Finance costs, net

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million	¥ million
				(unaudited)	
<b>Finance income</b>					
Bank interest income . . . . .	3	—	1	—	—
Other interest income . . . . .	63	63	57	28	88
	<u>66</u>	<u>63</u>	<u>58</u>	<u>28</u>	<u>88</u>
<b>Finance costs</b>					
Bank borrowings					
- wholly repayable within 5 years . . .	(337)	(212)	(249)	(121)	(127)
- Not wholly repayable within 5 years . . . . .	(54)	(86)	(74)	(36)	(30)
Bond interest expense . . . . .	(9)	(5)	(5)	(3)	(1)
Obligations under finance leases . . . . .	(307)	(338)	(364)	(184)	(173)
Provision for unwinding discount . . . . .	(87)	(79)	(52)	(24)	(26)
	<u>(794)</u>	<u>(720)</u>	<u>(744)</u>	<u>(368)</u>	<u>(357)</u>
<b>Finance costs, net . . . . .</b>	<u>(728)</u>	<u>(657)</u>	<u>(686)</u>	<u>(340)</u>	<u>(269)</u>

## 10 Income tax expense

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million	¥ million
				(unaudited)	
Current tax					
- Japan corporate income tax for the year/period . . . . .	3,146	2,845	2,387	1,001	1,238
Deferred income tax (Note 30) . . . . .	(168)	(125)	(77)	59	(548)
	<u>2,978</u>	<u>2,720</u>	<u>2,310</u>	<u>1,060</u>	<u>690</u>

Japan corporate income tax has been calculated on the estimated assessable profit for the Relevant Periods at the rates of taxation prevailing in Japan in which the Group operates.

No provision for Hong Kong Profits Tax has been made for the Relevant Periods as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the income tax rate of Japan as follows:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million	¥ million
Profit before income tax . . . . .	6,307	6,485	6,008	2,683	1,627
Tax calculated at applicable Japan corporate income tax rate . . . . .	2,537	2,439	2,259	1,010	573
Income not subject to tax . . . . .	(2)	(47)	(25)	(13)	(12)
Expenses not deductible for tax purpose . . . . .	12	8	38	16	18
Unrecognised tax losses . . . . .	—	226	31	13	111
Family corporation tax . . . . .	318	94	111	34	—
Utilisation of previously unrecognised tax losses . . . . .	—	—	(223)	—	—
Effect of change in tax rate . . . . .	113	—	119	—	—
	<u>2,978</u>	<u>2,720</u>	<u>2,310</u>	<u>1,060</u>	<u>690</u>

The Group is subject to national corporate income tax, inhabitants tax, and enterprise tax in Japan, which, in aggregate, resulted in effective statutory income tax rates of approximately 40.2%, 37.6%, 37.6%, 37.6% and 35.2% for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively.

As a result of the 2011 Reform Amendment Tax Law and the Special Restoration Tax Law that were promulgated on 2 December 2011, the national corporate income tax rate of Japan reduced from 30% to 25.5% from fiscal years beginning on or after 1 April 2012 and 10% temporary restoration corporation surtax was introduced on the corporate income tax applicable for 3 years period from fiscal years beginning on or after 1 April 2012.

The Group measured the current income tax for the year ended 31 March 2012 based on revised applicable income tax rates. The relevant deferred tax assets and liabilities have been remeasured at the tax rates that are expected to apply to the period when the related assets and liabilities are realised or settled.

Under The Act on Partial Revision of the Income Tax Act, etc.\* (所得税法等の一部を改正する法律) of Japan (Act No. 10 of 2014) (the "2014 Tax Reform") that was promulgated on 31 March 2014, 10% temporary restoration corporation surtax ceased one year ahead of schedule and do not apply for the fiscal year beginning on or after 1 April 2014. The Group measured the current income tax for the six months ended 30 September 2014 based on revised applicable income tax rates. The relevant deferred tax assets and liabilities as at 31 March 2014 have been remeasured at the tax rates that are expected to apply to the period when the related assets and liabilities are realised or settled.

## 11 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 Relevant Periods. In determining the weighted average number of ordinary shares in issue during the Relevant Periods, 3,895,002 shares of the Company, which were resulted from the issue and allotment of 3,895,002 shares by the Company in connection with the Reorganisation, had been treated as if those shares were in issue since 1 April 2011.

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
				(unaudited)	
Profit attributable to shareholders of the Company (¥ million) . . . . .	<u>3,329</u>	<u>3,765</u>	<u>3,698</u>	<u>1,623</u>	<u>937</u>
Weighted average number of ordinary shares in issue (thousands). . . . .	<u>3,895</u>	<u>3,895</u>	<u>3,895</u>	<u>3,895</u>	<u>3,895</u>
Basic and diluted earnings per share (Japanese Yen) . . . . .	<u>855</u>	<u>967</u>	<u>949</u>	<u>417</u>	<u>241</u>

No diluted earnings per share is presented as there was no potential dilutive share during the Relevant Periods. Diluted earnings per share is equal to the basic earnings per share.

The earnings per share as presented on the consolidated statements of comprehensive income has not taken into account the proposed sub-division of issued shares as described in Note 37.

## 12 Dividends

The Company and certain of its subsidiaries distributed final dividends to their shareholders/then shareholders for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014.

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	Dividend per share	Total dividend	Dividend per share	Total dividend	Dividend per share	Total dividend	Dividend per share	Total dividend	Dividend per share	Total dividend
	¥	¥ million	¥	¥ million	¥	¥ million	¥	¥ million	¥	¥ million
	(unaudited)									
The Company . . . . .	—	—	—	—	—	—	—	—	40	156
Niraku Corporation . . . . .	20	107	40	107	40	156	40	156	—	—
Nexia Inc. . . . .	1,000	3	1,000	3	10,000	27	10,000	27	10,000	27
		<u>110</u>		<u>110</u>		<u>183</u>		<u>183</u>		<u>183</u>

## 13 Property, plant and equipment - Group

	Freehold land	Buildings	Leasehold improvements	Equipment and tools	Motor vehicles	Construction in progress	Total
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
<b>At 1 April 2011</b>							
Cost . . . . .	7,353	11,668	8,770	7,151	141	461	35,544
Accumulated depreciation and provision for impairment . . . . .	—	(4,241)	(4,424)	(4,115)	(70)	—	(12,850)
<b>Net book amount . . . . .</b>	<u>7,353</u>	<u>7,427</u>	<u>4,346</u>	<u>3,036</u>	<u>71</u>	<u>461</u>	<u>22,694</u>
<b>Year ended 31 March 2012</b>							
Opening net book amount . . . . .	7,353	7,427	4,346	3,036	71	461	22,694
Transfer . . . . .	—	390	557	—	—	(947)	—
Additions . . . . .	—	—	—	1,445	29	591	2,065
Disposals . . . . .	(20)	—	(44)	(47)	—	—	(111)
Transferred to investment properties (Note 15). . . . .	(80)	(98)	—	—	—	—	(178)
Impairment (Note 7) . . . . .	—	(11)	(14)	(99)	—	—	(124)
Depreciation (Note 7). . . . .	—	(437)	(544)	(984)	(30)	—	(1,995)
<b>Closing net book amount . . . . .</b>	<u>7,253</u>	<u>7,271</u>	<u>4,301</u>	<u>3,351</u>	<u>70</u>	<u>105</u>	<u>22,351</u>

	Freehold land	Buildings	Leasehold improvements	Equipment and tools	Motor vehicles	Construction in progress	Total
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
<b>At 1 April 2012</b>							
Cost . . . . .	7,253	11,888	9,276	8,064	170	105	36,756
Accumulated depreciation and provision for impairment . . . . .	—	(4,617)	(4,975)	(4,713)	(100)	—	(14,405)
<b>Net book amount . . . . .</b>	<b>7,253</b>	<b>7,271</b>	<b>4,301</b>	<b>3,351</b>	<b>70</b>	<b>105</b>	<b>22,351</b>
<b>Year ended 31 March 2013</b>							
Opening net book amount . . . . .	7,253	7,271	4,301	3,351	70	105	22,351
Transfer . . . . .	—	335	491	—	—	(826)	—
Additions . . . . .	115	190	62	1,471	65	782	2,685
Acquisition of a subsidiary (Note 36) . . . . .	32	397	198	145	—	—	772
Disposals . . . . .	—	(12)	(8)	(73)	—	—	(93)
Depreciation (Note 7). . . . .	—	(490)	(562)	(896)	(32)	—	(1,980)
<b>Closing net book amount . . . . .</b>	<b>7,400</b>	<b>7,691</b>	<b>4,482</b>	<b>3,998</b>	<b>103</b>	<b>61</b>	<b>23,735</b>
<b>At 1 April 2013</b>							
Cost . . . . .	7,400	12,786	9,950	9,582	236	61	40,015
Accumulated depreciation and provision for impairment . . . . .	—	(5,095)	(5,468)	(5,584)	(133)	—	(16,280)
<b>Net book amount . . . . .</b>	<b>7,400</b>	<b>7,691</b>	<b>4,482</b>	<b>3,998</b>	<b>103</b>	<b>61</b>	<b>23,735</b>
<b>Year ended 31 March 2014</b>							
Opening net book amount . . . . .	7,400	7,691	4,482	3,998	103	61	23,735
Transfer . . . . .	—	467	912	—	—	(1,379)	—
Additions . . . . .	—	2,109	—	1,555	15	1,370	5,049
Disposals . . . . .	(11)	(56)	(42)	(25)	—	—	(134)
Impairment (Note 7) . . . . .	—	(284)	(201)	(134)	(1)	—	(620)
Depreciation (Note 7). . . . .	—	(576)	(583)	(1,020)	(34)	—	(2,213)
<b>Closing net book amount . . . . .</b>	<b>7,389</b>	<b>9,351</b>	<b>4,568</b>	<b>4,374</b>	<b>83</b>	<b>52</b>	<b>25,817</b>
<b>At 1 April 2014</b>							
Cost . . . . .	7,389	15,261	10,476	10,719	250	52	44,147
Accumulated depreciation and provision for impairment . . . . .	—	(5,910)	(5,908)	(6,345)	(167)	—	(18,330)
<b>Net book amount . . . . .</b>	<b>7,389</b>	<b>9,351</b>	<b>4,568</b>	<b>4,374</b>	<b>83</b>	<b>52</b>	<b>25,817</b>
<b>Six months ended</b>							
<b>30 September 2014</b>							
Opening net book amount . . . . .	7,389	9,351	4,568	4,374	83	52	25,817
Transfer . . . . .	—	69	99	—	—	(168)	—
Additions . . . . .	363	19	—	144	—	693	1,219
Disposals . . . . .	—	(162)	(15)	(57)	—	—	(234)
Depreciation (Note 7). . . . .	—	(272)	(277)	(432)	(15)	—	(996)
<b>Closing net book amount . . . . .</b>	<b>7,752</b>	<b>9,005</b>	<b>4,375</b>	<b>4,029</b>	<b>68</b>	<b>577</b>	<b>25,806</b>
<b>At 30 September 2014</b>							
Cost . . . . .	7,752	15,015	10,530	10,794	250	577	44,918
Accumulated depreciation and provision for impairment . . . . .	—	(6,010)	(6,155)	(6,765)	(182)	—	(19,112)
<b>Net book amount . . . . .</b>	<b>7,752</b>	<b>9,005</b>	<b>4,375</b>	<b>4,029</b>	<b>68</b>	<b>577</b>	<b>25,806</b>

Depreciation expenses of ¥1,848 million, ¥1,941 million, ¥2,117 million and ¥1,059 million (unaudited) and ¥948 million has been charged in “hall operating expenses” and ¥147 million, ¥39 million, ¥96 million and ¥34 million (unaudited) and ¥48 million has been charged in “administrative and other operating expenses” for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively.

Construction in progress as at 31 March 2012, 2013 and 2014 and 30 September 2014 represents pachinko and pachislot halls being constructed in Japan.

The net carrying amount of the Group's property, plant and machinery that were pledged for the banking facilities granted to the Group for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014 has been disclosed in Note 28.

The Group's property, plant and equipment held under finance leases included in the total amount of buildings were as follows:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Buildings				
Cost — capitalised finance leases . . . . .	3,559	3,748	5,859	5,534
Accumulated depreciation . . . . .	<u>(1,340)</u>	<u>(1,560)</u>	<u>(1,844)</u>	<u>(1,837)</u>
	<u>2,219</u>	<u>2,188</u>	<u>4,015</u>	<u>3,697</u>

The Group carried out reviews of the recoverable amounts of each cash-generating unit (“CGU”), which is determined as each individual pachinko and pachislot hall and a pachinko and pachislot hall with hotel business.

In view that some of the CGUs in Japan are performing below management's expectations of their initial budget and continuously making operating losses, and are projected to continuously incur losses in the future periods, the directors have reviewed the recoverability of the relevant carrying amounts of these loss-making CGUs.

The recoverable amount of a CGU is determined based on the value-in-use of calculation. These 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 calculation for the Relevant Periods.

	As at 31 March			As at 30 September
	2012	2013	2014	2014
Revenue growth rate . . . . .	0%	0%	0%	0%
Discount rate . . . . .	<u>7.3%</u>	<u>7.5%</u>	<u>8.7%</u>	<u>9.4%</u>

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 CGU. Revenue growth rate is based on past practices and expectations on market and operational development.

As a result of the impairment review, the carrying amounts of certain CGUs exceeded their recoverable amounts. Accordingly, impairment loss of approximately ¥124 million, nil, ¥620 million, nil (unaudited) and nil has been recognised in respect of buildings and leasehold improvements of the pachinko halls for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2013 and 2014, respectively.

#### 14 Investments in subsidiaries - Company

	As at 31 March		As at 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
Unlisted equity investments, at cost . . . . .	<u>16,286</u>	<u>16,286</u>	<u>16,286</u>

Details of the Company's directly and indirectly held subsidiaries as at 31 March 2012, 2013 and 2014 and 30 September 2014 are explained in Note 1.2.

## 15 Investment properties - Group

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
<b>At cost</b>				
At beginning of year/period . . . . .	—	683	669	676
Additions . . . . .	519	—	21	—
Transferred from property, plant and equipment (Note 13) . . . . .	178	—	—	—
Depreciation . . . . .	(14)	(14)	(14)	(7)
<b>At end of year/period . . . . .</b>	<u>683</u>	<u>669</u>	<u>676</u>	<u>669</u>
<b>At end of year/period</b>				
Cost . . . . .	770	770	791	791
Accumulated depreciation . . . . .	(87)	(101)	(115)	(122)
	<u>683</u>	<u>669</u>	<u>676</u>	<u>669</u>

The investment properties have been pledged to secure general facilities granted to the Company (Note 28).

The Group had no unprovided contractual obligations for future repairs and maintenance as at 31 March 2012, 2013 and 2014 and 30 September 2014.

Investment properties are situated in Japan and rented out under operating lease. Amounts recognised in profit and loss for investment properties are as follows:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million	¥ million
Rental income . . . . .	29	95	95	47	48
Direct operating expenses from the properties that generated rental income . . . . .	(7)	(18)	(21)	(8)	(8)
	<u>22</u>	<u>77</u>	<u>74</u>	<u>39</u>	<u>40</u>



The Group's investment properties were valued as at 31 March 2012, 2013 and 2014 and as at 30 September 2014 by an independent professionally qualified valuer, DTZ Debenham Tie Leung Limited ("DTZ"), who hold a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. The valuation was determined using the investment approach which largely used observable and unobservable inputs, including market rent, capitalisation rate and estimation in vacancy rate after expiry of current lease. The investment properties are recognised under Level 3 of fair value hierarchy.

The Group's finance department includes a team that review the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC, the valuation team and valuers at least annually.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

Where the valuation results indicate that the carrying amount of the investment properties exceed its recoverable amount, impairment loss will be recognised by the Group.

The fair value of the investment properties at 31 March 2012, 2013 and 2014 and 30 September 2014 is ¥586 million, ¥643 million, ¥708 million and ¥724 million, respectively. No impairment loss was recognised.

## 16 Intangible assets – Group

	Goodwill	Computer software	Total
	¥ million	¥ million	¥ million
<b>At 1 April 2011</b>			
Cost .....	104	555	659
Accumulated amortisation .....	—	(438)	(438)
Net book amount .....	<u>104</u>	<u>117</u>	<u>221</u>
<b>Year ended 31 March 2012</b>			
Opening net book amount .....	104	117	221
Additions .....	—	1	1
Amortisation (Note 7) .....	—	(45)	(45)
<b>Closing net book amount</b> .....	<u>104</u>	<u>73</u>	<u>177</u>
<b>At 1 April 2012</b>			
Cost .....	104	556	660
Accumulated amortisation .....	—	(483)	(483)
Net book amount .....	<u>104</u>	<u>73</u>	<u>177</u>
<b>Year ended 31 March 2013</b>			
Opening net book amount .....	104	73	177
Additions .....	—	15	15
Amortisation (Note 7) .....	—	(31)	(31)
<b>Closing net book amount</b> .....	<u>104</u>	<u>57</u>	<u>161</u>
<b>At 1 April 2013</b>			
Cost .....	104	571	675
Accumulated amortisation .....	—	(514)	(514)
Net book amount .....	<u>104</u>	<u>57</u>	<u>161</u>
<b>Year ended 31 March 2014</b>			
Opening net book amount .....	104	57	161
Additions .....	—	34	34
Amortisation (Note 7) .....	—	(28)	(28)
<b>Closing net book amount</b> .....	<u>104</u>	<u>63</u>	<u>167</u>
<b>At 1 April 2014</b>			
Cost .....	104	605	709
Accumulated amortisation .....	—	(542)	(542)
Net book amount .....	<u>104</u>	<u>63</u>	<u>167</u>

	<b>Goodwill</b>	<b>Computer software</b>	<b>Total</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
<b>Six months ended 30 September 2014</b>			
Opening net book amount . . . . .	104	63	167
Additions . . . . .	—	20	20
Amortisation (Note 7) . . . . .	—	(15)	(15)
Closing net book amount . . . . .	<u>104</u>	<u>68</u>	<u>172</u>
<b>At 30 September 2014</b>			
Cost	104	625	729
Accumulated amortisation . . . . .	—	(557)	(557)
Net book amount . . . . .	<u>104</u>	<u>68</u>	<u>172</u>

Intangible assets represent computer software and goodwill arising from purchase of 2 pachinko and pachislot halls from certain third parties. Amortisation expenses relating to computer software of ¥45 million, ¥31 million, ¥28 million and ¥14 million (unaudited) and ¥15 million have been charged in “hall operating expenses” for the years ended 31 March 2012, 2013 and 2014 and six months ended 30 September 2013 and 2014, respectively.

Goodwill is allocated to each CGU, which is determined as each individual pachinko and pachislot hall. Management reviews annually whether the carrying amount of a CGU is higher than the recoverable amount which results in impairment of goodwill. The recoverable amount of a CGU is determined based on value-in-use calculation. The calculation use pre-tax cash flow projections based on financial budget approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated in Note 13. As a result of the impairment review, the recoverable amounts of the CGUs in which goodwill has been allocated are higher than their carrying amounts as at 31 March 2012, 2013 and 2014 and at 30 September 2014. As a result, no impairment loss was charged during the Relevant Periods.

## 17 Financial instruments by category - Group and Company

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
<b>Financial assets</b>				
Financial assets at fair value				
Fair value through profit or loss . . . . .	429	546	701	697
Fair value through other comprehensive income . . . . .	<u>220</u>	<u>919</u>	<u>1,574</u>	<u>1,476</u>
	<u>649</u>	<u>1,465</u>	<u>2,275</u>	<u>2,173</u>
Financial assets at amortised cost				
Trade receivables . . . . .	60	64	54	52
Deposits and other receivables (including amounts due from directors and a shareholder and amounts due from related companies) . . . . .	3,467	3,256	3,023	3,130
Cash and bank balances . . . . .	<u>13,485</u>	<u>8,734</u>	<u>10,199</u>	<u>11,760</u>
	<u>17,012</u>	<u>12,054</u>	<u>13,276</u>	<u>14,942</u>
	<u>17,661</u>	<u>13,519</u>	<u>15,551</u>	<u>17,115</u>
<b>Financial liabilities</b>				
Financial liabilities at fair value				
Derivative financial instruments . . . . .	<u>55</u>	<u>44</u>	<u>48</u>	<u>38</u>
Other financial liabilities at amortised cost . . . . .				
Trade payables . . . . .	347	382	201	145
Other payables . . . . .	3,456	3,510	2,586	4,195
Borrowings (including amounts due to a shareholder and related companies) . . . . .	12,374	11,073	12,379	14,041
Obligations under finance leases . . . . .	<u>6,527</u>	<u>6,552</u>	<u>7,619</u>	<u>6,898</u>
	<u>22,704</u>	<u>21,517</u>	<u>22,785</u>	<u>25,279</u>
	<u>22,759</u>	<u>21,561</u>	<u>22,833</u>	<u>25,317</u>

	Company		
	As at 31 March		As at 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
<b>Financial assets</b>			
Financial assets at amortised cost			
Deposits and other receivables . . . . .	—	121	379
Cash and bank balances . . . . .	62	93	670
	<u>62</u>	<u>214</u>	<u>1,049</u>
<b>Financial liabilities</b>			
Financial liabilities at amortised cost			
Other payables . . . . .	15	8	62
Amount due to a subsidiary . . . . .	201	—	701
Amount due to a related company . . . . .	—	—	24
Borrowings . . . . .	3,288	3,129	2,959
	<u>3,504</u>	<u>3,137</u>	<u>3,746</u>

## 18 Financial assets at fair value — Group

### (a) *Financial assets at fair value through profit or loss*

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
Unlisted securities				
- Debt securities . . . . .	429	546	701	697
- Less non-current portion . . . . .	(395)	(546)	(601)	(697)
Current portion . . . . .	<u>34</u>	<u>—</u>	<u>100</u>	<u>—</u>

Change in fair value of financial assets at fair value through profit or loss are recorded in “other losses, net” in the consolidated statements of comprehensive income (Note 6).

The fair values of these debt and equity securities are determined by discounted cash flow approach and the information available from recent transactions price.

(b) *Financial assets at fair value through other comprehensive income*

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Listed securities				
- Equity securities . . . . .	134	909	1,574	1,474
Unlisted securities				
- Equity securities . . . . .	86	10	—	2
	<u>220</u>	<u>919</u>	<u>1,574</u>	<u>1,476</u>

Changes in fair values of financial assets at fair value through other comprehensive income are recorded in “investment revaluation reserves” in the consolidated statements of change in equity.

The fair value of all equity securities is based on the current bid prices and recent transaction prices in an active market.

**19 Derivative financial instruments - Group**

	As at 31 March						As at 30 September	
	2012		2013		2014		2014	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Interest rate swaps . . . . .	—	55	—	44	—	48	—	38
Less non-current portion . . . . .	—	(37)	—	(26)	—	(33)	—	(23)
Current portion . . . . .	—	18	—	18	—	15	—	15

Derivative financial instruments are utilised by the Group in the management of its interest rate exposures. The Group’s policy is not to utilise derivative financial instruments for trading or speculative purposes. The Group has entered into interest rate swaps agreement with banks mainly to swap floating interest rate borrowings to fixed interest rate borrowings to manage the fixed and floating interest rate mix of the Group’s total debt portfolio. As at 31 March 2012, 2013 and 2014 and at 30 September 2014, the notional amount of the outstanding interest rate swap agreement with the banks amounted to ¥2,562 million, ¥1,213 million, ¥2,052 million and ¥2,378 million, respectively.

**20 Inventories - Group**

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Supplies .....	412	86	21	40

The cost of inventories recognised as expenses and included in “hall operating expense” amounted to ¥7,161 million, ¥7,948 million, ¥8,216 million, ¥4,163 million (unaudited) and ¥4,482 and “administration and other operating expenses” amounted to ¥1 million, ¥2 million, ¥18 million, ¥18 million (unaudited) and ¥1 million for the years ended 31 March 2012, 2013 and 2014 and six months ended 30 September 2013 and 2014, respectively.

**21 Trade receivables - Group**

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Trade receivables .....	65	69	59	57
Less: provision for impairment of trade receivables .....	(5)	(5)	(5)	(5)
	<u>60</u>	<u>64</u>	<u>54</u>	<u>52</u>

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

The creation and release of provision for impaired receivables have been included in “administrative and other operating expenses” in the consolidated statements of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

As at 31 March 2012, 2013, 2014 and as at 30 September 2014, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Less than 30 days .....	57	61	51	49
31 - 90 days .....	—	—	—	—
Over 90 days .....	8	8	8	8
	<u>65</u>	<u>69</u>	<u>59</u>	<u>57</u>

As at 31 March 2012, 2013 and 2014 and as at 30 September 2014, trade receivables of ¥3 million were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables, based on due date, is as follows:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Overdue but not impaired				
Over 90 days .....	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group and the Company do not hold any collateral as security.

The carrying amounts of trade receivables approximate their fair values as at 31 March 2012, 2013 and 2014, and as at 30 September 2014; and are denominated in the Japanese Yen.



## 22 Prepayments, deposits and other receivables - Group and Company

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
<b>Non-current portion</b>				
Rental and other deposits . . . . .	2,567	2,781	2,597	3,022
Rental prepayments . . . . .	1,410	1,443	1,540	1,386
Loans receivables . . . . .	21	21	2	2
Other prepayments and receivables . . . .	53	65	112	109
	<u>4,051</u>	<u>4,310</u>	<u>4,251</u>	<u>4,519</u>

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
<b>Current portion</b>				
Prepayment for prizes in operation for pachinko and pachislot halls . . . . .	380	405	689	716
Rental prepayments . . . . .	362	363	510	519
Loans receivables . . . . .	1	1	1	1
Other prepayments and receivables . . . .	246	266	346	251
	<u>989</u>	<u>1,035</u>	<u>1,546</u>	<u>1,487</u>

	Company		
	As at 31 March		As at 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
<b>Current portion</b>			
Other receivables . . . . .	—	—	9

The carrying amounts of prepayment, deposits and other receivables of the Group and the Company approximate their fair values as at 31 March 2012, 2013 and 2014, and as at 30 September 2014; and are denominated in Japanese Yen.

Certain deposits and other receivables have been pledged to secure general facilities granted to the Company (Note 28).

### 23 Cash and bank balances - Group and Company

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
<b>Non-current portion</b>				
Bank deposits with maturity over 1 year .....	142	71	84	119
<b>Current portion</b>				
Bank deposits with maturity over 3 months .....	558	654	606	539
Pledged bank deposits (Note a) .....	200	1,100	1,100	1,100
	<u>758</u>	<u>1,754</u>	<u>1,706</u>	<u>1,639</u>
Cash on hand .....	1,424	1,772	1,017	918
Cash at banks .....	11,161	5,137	7,392	9,084
Cash and cash equivalents .....	12,585	6,909	8,409	10,002
Total cash and bank balances .....	<u>13,485</u>	<u>8,734</u>	<u>10,199</u>	<u>11,760</u>

	Company		
	As at 31 March		As at 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
Cash at banks and on hand .....	<u>62</u>	<u>93</u>	<u>670</u>

Notes:

- (a) The pledged bank deposits are held in designated bank accounts mainly for the Group's banking facilities (Note 28).
- (b) The carrying amounts of bank deposits with maturity over 3 months, cash and bank balances and pledged deposits are denominated in the following currencies:

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Japanese Yen . . . . .	13,393	8,714	10,195	11,713
Others . . . . .	<u>92</u>	<u>20</u>	<u>4</u>	<u>47</u>
	<u>13,485</u>	<u>8,734</u>	<u>10,199</u>	<u>11,760</u>

	Company		
	As at 31 March		As at 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
Japanese Yen . . . . .	<u>62</u>	<u>93</u>	<u>670</u>

## 24 Share capital - Company

	Ordinary	Veto	Total
Authorised . . . . . No. of shares	<u>20,000,000</u>	<u>1</u>	<u>20,000,001</u>
Issued and paid up. . . . . No. of shares	<u>3,895,001</u>	<u>1</u>	<u>3,895,002</u>
Total amount (in Japanese Yen)	<u>9,996,700</u>	<u>3,300</u>	<u>10,000,000</u>

## 25 Reserves - Group and Company

### (a) Capital surplus

Under the Japan Companies Act, certain portion of the consideration from the issuance of share capital shall be credited to the share capital and the remaining of the consideration shall be credited to capital surplus.

On 17 September 2014, Niraku Corporation transferred certain tangible assets totalling ¥1,110 million, which, among others, included the entire issued stock of Niraku USA Inc. to Niraku Investment Inc.

On the same date, the Company then declared and distributed a distribution in specie out of its capital surplus by way of distributing 3,895,002 shares in Niraku Investment Inc., representing its entire number of issued shares, to the Controlling Shareholders. Since then, the businesses of Niraku Investment Inc. and Niraku USA Inc. that were not related to the core business of pachinko hall operations under the Company were excluded from the Group.

(b) ***Capital reserve***

Capital reserve represents the difference between the value of net assets of the subsidiaries acquired by the Company and the share capitals in acquired subsidiaries under common control.

(c) ***Legal reserve***

The Japan Companies Act provides that a 10% dividend paid during the year shall be appropriated as legal reserve (a component of either capital surplus or retained earnings) until an aggregate amount of legal capital reserve and legal retained earnings equals 25% of share capital. The legal reserve may be used to reduce a deficit or transfer to share capital upon approval of the general meeting of shareholders.

(d) ***Investment revaluation reserve***

The investment revaluation reserve comprises the cumulative net change in the fair value of financial assets through other comprehensive income held at the end of the reporting period.

(e) ***Purchase of treasury shares***

On 10 August 2012 and 20 February 2013, the board of directors of Niraku Corporation resolved to repurchase 250,000 and 161,000 issued shares for cash consideration of approximately ¥600 million and ¥531 million, respectively. The repurchase of shares resulted in reduction in retained earnings of ¥1,131 million during the year ended 31 March 2013. On 31 March 2013, Niraku Corporation cancelled all of these shares.

On 1 February 2013, the Company purchased 1,040,000 issued shares of Niraku Corporation from Mr. Tatsuo Taniguchi, Mr. Masataka Taniguchi, Mr. Yoshinno Tei, Mr. Tateo Taniguchi and Mrs. Kyoko Taniguchi for cash consideration of approximately ¥3,432 million upon the approval at the general meeting of shareholders. The purchase of shares resulted in reduction in retained earnings of ¥3,432 million during the year ended 31 March 2013.

On 24 May 2012 and 29 September 2014, Nexia Inc. resolved to repurchase 300 and 2,550 issued shares for cash consideration of approximately ¥12 million and ¥497 million, respectively, upon the approval by the board of directors of Nexia Inc. The repurchase of shares resulted in reduction in retained earnings of ¥12 million and ¥497 million during the year ended 31 March 2013 and the six months ended 30 September 2014, respectively. On 31 March 2013 and 30 September 2014, Nexia Inc. cancelled all of these shares.

On 29 September 2014, Niraku Corporation purchased 150 issued shares of Nexia Inc. from Mr. Tatsuo Taniguchi at cash consideration of approximately ¥29 million.

(f) **Reserves - the Company**

	Capital surplus (Note 25(a))	Retained earnings	Total
	¥ million	¥ million	¥ million
<b>Balance at 1 April 2012</b> .....	12,844	—	12,844
Profit for the year .....	—	(10)	(10)
<b>Balances at 31 March 2013 and 1 April 2013</b> .....	12,844	(10)	12,834
Profit for the year .....	—	518	518
<b>Balance at 31 March 2014 and 1 April 2014</b> .....	12,844	508	13,352
Profit for the period .....	—	1,493	1,493
<b>Total comprehensive income for the period</b> .....	—	1,493	1,493
Dividend .....	—	(156)	(156)
Reduction in surplus capital upon distribution in specie (Note 25(a)) .....	(1,110)	—	(1,110)
	(1,110)	(156)	(1,266)
<b>Balance at 30 September 2014</b> .....	<u>11,734</u>	<u>1,845</u>	<u>13,579</u>

**26 Trade payables - Group**

The ageing analysis of the trade payables based on invoice dates as at 31 March 2012, 2013, and 2014 and as at 30 September 2014 were as follows:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Less than 30 days .....	164	213	112	62
31 - 90 days .....	183	169	89	83
	<u>347</u>	<u>382</u>	<u>201</u>	<u>145</u>

The carrying amounts of trade payables approximate their fair values as at 31 March 2012, 2013 and 2014, and as at 30 September 2014; and are denominated in Japanese Yen.

## 27 Accruals, provisions and other payables - Group and Company

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
<b>Non-current portion</b>				
Provision for reinstatement costs . . . . .	1,141	1,267	1,320	1,337
Provision for long service payment . . . . .	10	16	22	24
Vending machine rental deposit and rental receipt in advance . . . . .	96	111	105	105
Other payables . . . . .	33	36	38	35
	<u>1,280</u>	<u>1,430</u>	<u>1,485</u>	<u>1,501</u>
<b>Current portion</b>				
Accrued purchases for pachinko and pachislot machines . . . . .	715	153	162	708
Accrued purchases for property, plant and equipment . . . . .	141	32	16	334
Accrued staff costs . . . . .	634	1,265	659	1,327
Vending machine rental receipt in advance . . . . .	280	261	276	230
Unutilised balls and tokens . . . . .	342	360	215	511
Other tax payable . . . . .	459	515	386	532
Office expenses and consumables . . . . .	739	777	490	581
Insurance premium payable . . . . .	103	100	56	53
Utilities payable . . . . .	34	35	36	31
Other payables . . . . .	130	86	48	18
	<u>3,577</u>	<u>3,584</u>	<u>2,344</u>	<u>4,325</u>
<b>Company</b>				
	As at 31 March		As at 30 September	
	2013	2014	2014	
	¥ million	¥ million	¥ million	
<b>Non-current portion</b>				
Other payables . . . . .	<u>8</u>	<u>7</u>	<u>7</u>	
<b>Current portion</b>				
Other payables . . . . .	<u>7</u>	<u>1</u>	<u>55</u>	

The carrying amounts of other payables approximate their fair values as at 31 March 2012, 2013 and 2014, and as at 30 September 2014; and are denominated in Japanese Yen.

## 28 Borrowings - Group and Company

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
<b>Non-current portion</b>				
Bank loans . . . . .	2,149	2,617	3,469	3,627
Syndicated loans . . . . .	2,854	5,155	5,606	5,772
Bonds . . . . .	23	219	195	569
	<u>5,026</u>	<u>7,991</u>	<u>9,270</u>	<u>9,968</u>
<b>Current portion</b>				
Bank loans . . . . .	1,689	2,034	2,233	3,048
Syndicated loans . . . . .	5,319	1,001	851	903
Bonds . . . . .	195	47	25	122
	<u>7,203</u>	<u>3,082</u>	<u>3,109</u>	<u>4,073</u>
Total borrowings . . . . .	<u>12,229</u>	<u>11,073</u>	<u>12,379</u>	<u>14,041</u>

	Company		
	As at 31 March		As at 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
Bank loans			
Current portion . . . . .	174	350	351
Non-current portion . . . . .	3,114	2,779	2,608
Total borrowings . . . . .	<u>3,288</u>	<u>3,129</u>	<u>2,959</u>

As at 31 March 2012, 2013 and 2014, and at 30 September 2014, the Group's borrowings were repayable as follows:

	<b>Group</b>			
	<b>As at 31 March</b>			<b>As at</b>
				<b>30 September</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
Within 1 year .....	7,203	3,082	3,109	4,073
Between 1 and 2 years .....	1,765	1,479	2,278	2,761
Between 2 and 5 years .....	1,357	2,936	3,884	4,238
Over 5 years .....	1,904	3,576	3,108	2,969
	<u>12,229</u>	<u>11,073</u>	<u>12,379</u>	<u>14,041</u>

	<b>Company</b>		
	<b>As at 31 March</b>		<b>As at</b>
			<b>30 September</b>
	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
Within 1 year .....	174	350	350
Between 1 and 2 years .....	349	350	351
Between 2 and 5 years .....	1,046	1,051	1,052
Over 5 years .....	1,719	1,378	1,206
Total borrowings .....	<u>3,288</u>	<u>3,129</u>	<u>2,959</u>

The average effective interest rates (per annum) at end of each reporting period were set out as follows:

	<b>Group</b>			
	<b>As at 31 March</b>			<b>As at</b>
				<b>30 September</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
Bank loans .....	2.9%	2.8%	2.7%	2.7%
Syndicated loans .....	2.8%	2.2%	2.3%	2.3%
Bonds .....	<u>2.1%</u>	<u>1.5%</u>	<u>1.4%</u>	<u>2.0%</u>



	Company		
	As at 31 March		As at 30 September
	2013	2014	2014
Bank loans .....	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>

The Group, as a lessee, has entered into a finance lease arrangement on 31 July 2014 which the Group agreed to sell certain leasehold improvements to a third party lessor at an aggregate consideration of ¥500 million and the lessor agreed to lease-back the leasehold improvements to the Group for a total lease payments of ¥559 million covering a period of 84 months commencing from 1 October 2014. The Group has an option to renew for a further term of 1 year on the 20th of the preceding month before the end of lease term at no cost. During the lease period, the Group cannot transfer or pledge to any party the relevant leasehold improvements.

At the end of each reporting period, the total borrowings are pledged by certain assets and their carrying values are shown as below:

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Property, plant and equipment .....	10,405	10,439	7,902	8,975
Investment properties .....	683	669	676	669
Bank deposits .....	200	1,100	1,100	1,100
Deposits and other receivables .....	185	180	339	335
Other long term assets .....	<u>28</u>	<u>35</u>	<u>37</u>	<u>67</u>
	<u>11,501</u>	<u>12,423</u>	<u>10,054</u>	<u>11,146</u>

The Group's borrowings and obligations under finance leases (Note 29) of ¥8,231 million, ¥2,477 million, ¥3,316 million and ¥1,807 million as at 31 March 2012, 2013, 2014, and as at 30 September 2014, respectively were guaranteed by the directors, namely Mr. Hisanori Taniguchi, Mr. Masataka Taniguchi and Mr. Tatsuo Taniguchi. These personal guarantees will be replaced by the corporate guarantee before the Listing.

The undrawn borrowing facilities of the Group at each reporting period as follows:

	<b>Group</b>			
	<b>As at 31 March</b>			<b>As at 30 September</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
Floating rate				
- Expiring over 1 year . . . . .	<u>—</u>	<u>—</u>	<u>1,000</u>	<u>—</u>

The carrying amounts of borrowings of the Group and the Company approximate their fair values as at 31 March 2012, 2013 and 2014, and as at 30 September 2014.

During the Relevant Periods, the principal amounts of bonds issued by the Group carried at fixed interest rate per annum are as follows:

<b>Issue date</b>	<b>Principal amount</b>	<b>Interest rate</b>	<b>Due date</b>
	<b>¥ million</b>		
30 March 2004 . . . . .	250	1.20%	28 February 2014
13 July 2006 . . . . .	300	1.61%	12 July 2012
28 December 2009 . . . . .	200	0.70%	28 December 2011
18 June 2010 . . . . .	200	0.63%	28 June 2012
28 December 2010 . . . . .	200	0.62%	28 December 2012
28 August 2012 . . . . .	160	0.70%	26 August 2022
30 November 2012 . . . . .	100	0.60%	30 November 2022
28 August 2014 . . . . .	400	0.31%	26 August 2016
19 September 2014 . . . . .	100	1.00%	19 September 2019

## 29 Obligations under finance leases - Group

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
<b>Gross finance lease liabilities - minimum lease payments</b>				
No later than 1 year . . . . .	2,635	2,624	2,536	3,065
Later than 1 year and no later than 2 years . . . . .	1,206	1,331	1,521	1,357
Later than 2 year and no later than 5 years . . . . .	2,185	2,142	2,383	1,835
Later than 5 years . . . . .	1,340	1,192	2,449	1,754
	<u>7,366</u>	<u>7,289</u>	<u>8,889</u>	<u>8,011</u>
Future finance charges on finance leases . . . . .	(839)	(737)	(1,270)	(1,113)
Present values of finance lease liabilities . . . . .	<u>6,527</u>	<u>6,552</u>	<u>7,619</u>	<u>6,898</u>

The present values of finance lease liabilities are as follows:

No later than 1 year . . . . .	2,392	2,394	2,253	2,808
Later than 1 year and no later than 2 years . . . . .	1,035	1,173	1,312	1,179
Later than 2 year and no later than 5 years . . . . .	1,917	1,910	2,009	1,512
Later than 5 years . . . . .	1,183	1,075	2,045	1,399
Total finance lease liabilities . . . . .	6,527	6,552	7,619	6,898
Less: Amount included in current liabilities . . . . .	(2,392)	(2,394)	(2,253)	(2,808)
	<u>4,135</u>	<u>4,158</u>	<u>5,366</u>	<u>4,090</u>

Assets arranged under finance leases represent buildings for pachinko and pachislot halls and pachinko and pachislot machines. The average lease term is 20 years with effective interest rate ranged from 4.56% to 4.86% per annum as at 31 March 2012, 2013, 2014 and as at 30 September 2014. No arrangements have been entered into for contingent rental payments during the reporting periods.

**30 Deferred income tax - Group**

The analysis of deferred income tax assets is as follows:

	<b>Group</b>			
	<b>As at 31 March</b>			<b>As at</b>
				<b>30 September</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
Deferred income tax assets				
- to be recovered after more than 12 months . . . . .	1,394	1,382	1,657	1,430
- to be recovered within 12 months . .	1,577	1,750	1,511	1,935
	<u>2,971</u>	<u>3,132</u>	<u>3,168</u>	<u>3,365</u>
Deferred income tax liabilities				
- to be recovered after more than 12 months . . . . .	(1,408)	(1,520)	(1,706)	(1,327)
- to be recovered within 12 months . .	—	—	—	—
	<u>(1,408)</u>	<u>(1,520)</u>	<u>(1,706)</u>	<u>(1,327)</u>
Deferred income tax assets, net . . . . .	<u>1,563</u>	<u>1,612</u>	<u>1,462</u>	<u>2,038</u>

The net movement on the deferred income tax account is as follows:

	<b>Group</b>			
	<b>As at 31 March</b>			<b>As at</b>
				<b>30 September</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
At 1 April . . . . .	1,404	1,563	1,612	1,462
(Charged)/credited to other comprehensive income . . . . .	(9)	(76)	(227)	28
Credited to profit or loss . . . . .	168	125	77	548
Deferred income tax assets . . . . .	<u>1,563</u>	<u>1,612</u>	<u>1,462</u>	<u>2,038</u>

The movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred income tax assets**

	Group					
	Property, plant and equipment	Asset retirement obligation	Fair value through profit and loss financial assets	Fair value through other comprehensive income	Other provisions	Total
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Balance at 1 April						
2011.....	1,942	463	55	15	345	2,820
Charged to other comprehensive income .....	—	—	—	(9)	—	(9)
Credited/(charged) to profit or loss .....	39	(26)	(15)	—	162	160
Balances at 31 March 2012 and 1 April 2012.....	1,981	437	40	6	507	2,971
Charged to other comprehensive income .....	—	—	—	(6)	—	(6)
(Charged)/credited to profit or loss.....	(104)	6	(2)	—	267	167
Balances at 31 March 2013 and 1 April 2013.....	1,877	443	38	—	774	3,132
Credited/(charged) to profit or loss.....	275	45	(10)	—	(274)	36
Balances at 31 March 2014 and 1 April 2014.....	2,152	488	28	—	500	3,168
(Charged)/credited to profit or loss .....	(52)	2	3	—	244	197
Balance at 30 September 2014 .....	<u>2,100</u>	<u>490</u>	<u>31</u>	<u>—</u>	<u>744</u>	<u>3,365</u>

## Deferred income tax liabilities

	Group		
	Property, plant and equipment	Fair value through other comprehensive income	Total
	¥ million	¥ million	¥ million
Balance at 1 April 2011 . . . . .	(1,416)	—	(1,416)
Credited to profit or loss . . . . .	<u>8</u>	<u>—</u>	<u>8</u>
Balances at 31 March 2012 and 1 April 2012	(1,408)	—	(1,408)
Charged to other comprehensive income . . . . .	—	(70)	(70)
Charged to profit or loss . . . . .	<u>(42)</u>	<u>—</u>	<u>(42)</u>
Balance at 31 March 2013 and 1 April 2013 .	(1,450)	(70)	(1,520)
Charged to other comprehensive income . . . . .	—	(227)	(227)
Credited to profit or loss . . . . .	<u>41</u>	<u>—</u>	<u>41</u>
Balances at 31 March 2014 and 1 April 2014	(1,409)	(297)	(1,706)
Credited to other comprehensive income . . . . .	—	28	28
Credited to profit or loss . . . . .	<u>351</u>	<u>—</u>	<u>351</u>
Balance at 30 September 2014 . . . . .	<u>(1,058)</u>	<u>(269)</u>	<u>(1,327)</u>

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately ¥226 million, ¥31 million and ¥142 million in respect of losses amounting to approximately ¥601 million, ¥81 million and ¥395 million that can be carried forward against future taxable income as at 31 March 2013, 31 March 2014 and 30 September 2014 respectively. Losses can be carried forward for 7 years.

Other than the above, there was no material unprovided deferred income tax as at 31 March 2012, 2013 and 2014 and at 30 September 2014.

**31 Amount due to a subsidiary - Company**

Loan payables to a subsidiary as at 31 March 2013 and as at 30 September 2014 are non-trade nature, unsecured, interest bearing at 2.5% per annum and repayable on demand. Other amounts due to a subsidiary as at 31 March 2013 and as at 30 September 2014 are non-trade nature, unsecured, interest free and repayable on demand.

The carrying amount of the amount due to a subsidiary approximates its fair value as at the Relevant Periods and is denominated in Japanese Yen.

	As at 31 March		As at
	2013	2014	30 September
	¥ million	¥ million	¥ million
<b>Amounts due to Niraku Corporation</b>			
Loan payables to Niraku Corporation . . . . .	200	—	600
Interest payables to Niraku Corporation . . . . .	1	—	3
Balance due to Niraku Corporation . . . . .	—	—	98
	<u>201</u>	<u>—</u>	<u>701</u>

## 32 Cash generated from operations

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million (unaudited)	¥ million
Profit before income tax . . . . .	6,307	6,485	6,008	2,683	1,627
Adjustments for:					
Depreciation of property, plant and equipment . . . . .	1,995	1,980	2,213	1,106	996
Depreciation of investment properties . . . . .	14	14	14	7	7
Amortisation of intangible assets . . . . .	45	31	28	14	15
Loss on disposal of property, plant and equipment . . . . .	69	24	101	85	39
Impairment loss of property, plant and equipment . . . . .	124	—	620	—	—
Write-off/(reversal) of doubtful debts . . . . .	116	(102)	2	—	—
Finance costs, net . . . . .	728	657	686	340	269
Dividend income . . . . .	(4)	(29)	(67)	(35)	(34)
(Gain)/loss on fair value for derivative financial instruments . . . . .	(44)	(11)	4	3	(10)
Loss/(gain) on fair value for financial assets at fair value through profit or loss . . . . .	8	(11)	(5)	(2)	(4)
Loss/(gain) on disposal of financial assets at fair value through profit or loss . . . . .	—	28	—	(5)	—
Changes in working capital:					
Inventories . . . . .	2,365	3,081	2,535	1,772	591
Trade receivables . . . . .	(20)	(4)	10	—	2
Prepayments, deposits and other receivables . . . . .	561	25	(1,151)	(979)	(857)
Amounts due from directors and a shareholder . . . . .	—	10	12	6	378
Trade payables . . . . .	237	35	(181)	(214)	(56)
Accruals, provisions and other payables . . . . .	934	55	(1,222)	(1,220)	1,564
Cash generated from operations . . . . .	<u>13,435</u>	<u>12,268</u>	<u>9,607</u>	<u>3,561</u>	<u>4,527</u>



In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	As at 31 March			As at 30 September	
	2012	2013	2014	2013	2014
Net book amount . . . . .	111	93	134	87	234
Loss on disposal of property, plant and equipment . . . . .	<u>(69)</u>	<u>(24)</u>	<u>(101)</u>	<u>(85)</u>	<u>(39)</u>
Proceeds from disposal of property, plant and equipment . . . . .	<u>42</u>	<u>69</u>	<u>33</u>	<u>2</u>	<u>195</u>

#### Non-cash transactions:

- (a) For the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2013 and 2014, certain property, plant and equipment and pachinko and pachislot machines amounting to ¥4,499 million, ¥4,381 million, ¥6,156 million, ¥4,400 million (unaudited) and ¥681 million were purchased under finance leases.
- (b) For the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2013 and 2014, certain finance lease obligations amounting to ¥36 million, ¥37 million, ¥628 million, ¥662 million (unaudited) and ¥425 million were settled through reduction of rental prepayments.
- (c) The issue of shares as consideration for acquisition of Niraku Corporation and distribution in specie as discussed in Note 1.2 are non-cash transactions.

### 33 Contingencies - Group and Company

As at 31 March 2012, 2013 and 2014, and as at 30 September 2014, the Group and the Company did not have any significant contingent liabilities.

**34 Commitments****(a) Capital commitments**

The outstanding capital commitments of the Group not provided for in the Financial Information as at 31 March 2012, 2013, 2014 and as at 30 September 2014 are as follows:

	<b>Group</b>			
	<b>As at 31 March</b>			<b>As at 30 September</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
Contracted but not provided for purchase of property, plant and equipment .....	—	407	—	866

**(b) Operating lease commitments - Group****(i) As a lessee**

As at 31 March 2012, 2013, 2014 and at 30 September 2014, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and pachinko and pachislot halls as follows:

	<b>Group</b>			
	<b>As at 31 March</b>			<b>As at 30 September</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>
No later than one year .....	595	611	737	848
Later than one year and no later than five years .....	2,378	2,445	3,089	3,412
Over five years .....	4,239	3,714	5,247	5,424
	<u>7,212</u>	<u>6,770</u>	<u>9,073</u>	<u>9,684</u>

(ii) *As a lessor*

As at 31 March 2012, 2013, 2014 and at 30 September 2013 and 2014, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
No later than one year . . . . .	42	15	44	44

### 35 Related party transactions

For the purposes of this Financial Information, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individuals and companies were related parties that had transactions or balances with the Group during the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2013 and 2014:

Name of related party	Relationship with the Group
Hisanori Taniguchi . . . . .	Director of the Company, one of the Controlling Shareholders
Tatsuo Taniguchi . . . . .	Director of the Company, one of the Controlling Shareholders
Masataka Taniguchi . . . . .	One of the Controlling Shareholders
Tateo Taniguchi (Note) . . . . .	One of the Controlling Shareholders
Yoshihiro Tei . . . . .	One of the Controlling Shareholders
Noriko Kaneshiro . . . . .	One of the Controlling Shareholders
Kyoko Taniguchi . . . . .	Close family member of certain parties among the Controlling Shareholders
Jukki Limited . . . . .	One of the Controlling Shareholders
Densho Limited . . . . .	One of the Controlling Shareholders
Echo Limited . . . . .	One of the Controlling Shareholders
Daiki Limited . . . . .	One of the Controlling Shareholders
Hokuyo Kanko Limited . . . . .	One of the Controlling Shareholders
KAWASHIMA Co., Ltd. . . . .	One of the Controlling Shareholders
Niraku Investment Inc. . . . .	Controlled by certain parties among the Controlling Shareholders
Niraku USA Inc. . . . .	Controlled by certain parties among the Controlling Shareholders

Note: Mr. Tateo Taniguchi deceased on 17 April 2014. Mr. Mitsuhiro Tei, Mr. Motohiro Tei, Ms. Eijun Tei and Ms. Rika Tei became successors of his shareholding since then.

Other than those transactions and balances disclosed elsewhere in the Financial Information, the following transactions were carried out with related parties during the Relevant Periods:

### Related party transactions

#### (a) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the Relevant Periods and all of them are discontinued transactions:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million (unaudited)	¥ million
Discontinued transactions:					
<b>Rental expenses</b>					
Hisanori Taniguchi . . . . .	18	18	18	9	8
Tatsuo Taniguchi . . . . .	18	18	18	9	8
Masataka Taniguchi . . . . .	24	24	24	12	11
	<u>60</u>	<u>60</u>	<u>60</u>	<u>30</u>	<u>27</u>

The rental expenses were related to the operating lease expense of a pachinko hall owned by the Taniguchi Family. During the six months ended 30 September 2014, the Group acquired the related property from the Taniguchi Family as part of the Reorganisation (Note 1.2(ix)).

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million (unaudited)	¥ million
<b>Interest expenses</b>					
Kyoko Taniguchi . . . . .	1	3	—	—	—
KAWASHIMA Co., Ltd. . . . .	1	—	—	—	—
	<u>2</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Interest income</b>					
Jukki Limited . . . . .	2	2	—	—	—
Densho Limited . . . . .	2	2	—	—	—
Echo Limited . . . . .	2	2	—	—	—
Daiki Limited . . . . .	2	2	—	—	—
Hokuyo Kanko Limited . . . . .	5	4	—	—	—
	<u>13</u>	<u>12</u>	<u>—</u>	<u>—</u>	<u>—</u>

All of the above transactions with related parties were conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

**(b) Key management compensation**

Key management includes directors (executive, non-executive and external directors) and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million	¥ million
				(unaudited)	
Directors' fees . . . . .	130	137	135	67	92
Basic salaries, allowances and other benefits in kind . . . . .	—	600	—	—	600
Discretionary bonus . . . . .	10	2	—	—	—
Employee's contribution to pension scheme . . . . .	5	2	5	2	2
	<u>145</u>	<u>741</u>	<u>140</u>	<u>69</u>	<u>694</u>

**(c) Guarantees by directors and shareholders**

As at 31 March 2012, 2013 and 2014 and 30 September 2014, the Group's banking facilities were secured by personal guarantees provided by the directors, namely: Mr. Hisanori Taniguchi, and Mr. Tatsuo Taniguchi and shareholders of the Company. These personal guarantees will be replaced by corporate guarantees upon the Listing.

**Amounts due from directors and shareholders**

The amounts represented prepaid rental deposits to directors and shareholders. The amounts were unsecured, interest free and refundable upon the termination of lease agreements. As at 31 March 2012, 2013 and 2014, there was no impairment for the amounts due from directors and shareholders, as the amounts have not past due and they have no history of default in payment. As at 30 September 2014, the rental deposits were fully refunded.

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
<b>Non-current portion</b>				
Hisanori Taniguchi . . . . .	95	93	91	—
Tatsuo Taniguchi . . . . .	95	93	91	—
Masataka Taniguchi . . . . .	128	125	122	—
	<u>318</u>	<u>311</u>	<u>304</u>	<u>—</u>
<b>Current portion</b>				
Hisanori Taniguchi . . . . .	3	4	4	—
Tatsuo Taniguchi . . . . .	3	4	4	—
Masataka Taniguchi . . . . .	4	4	4	—
	<u>10</u>	<u>12</u>	<u>12</u>	<u>—</u>

The maximum receivable balances during the Relevant Periods were:

	Year ended 31 March			Six months ended 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Hisanori Taniguchi . . . . .	<u>98</u>	98	97	96
Tatsuo Taniguchi . . . . .		98	97	96
		<u>196</u>	<u>194</u>	<u>192</u>

**Amounts due from related companies**

The amounts represented loans due from related companies which were unsecured, interest-bearing at 3.2% per annum and repayable on 28 February 2013. The amounts were fully repaid on 28 February 2013.

	<b>As at 31 March</b>	
	<b>2012</b>	<b>2013</b>
	<b>¥ million</b>	<b>¥ million</b>
Jukki Limited .....	70	—
Densho Limited.....	70	—
Echo Limited.....	70	—
Daiki Limited.....	70	—
Hokuyo Kanko Limited.....	155	—
	<u>435</u>	<u>—</u>

**Amount due to a related party**

The amount represented loan due to Kyoko Taniguchi which was unsecured, interest-bearing at 3.0% per annum and repayable on 1 February 2012. The amount was fully repaid on 31 January 2013.

	<b>As at 31 March</b>	
	<b>2012</b>	<b>2013</b>
	<b>¥ million</b>	<b>¥ million</b>
Kyoko Taniguchi .....	<u>100</u>	<u>—</u>

**Amounts due to related companies**

Amount due to KAWASHIMA Co., Ltd. was unsecured, interest-bearing at 3.0% per annum and repayable on 29 September 2014. The amount was fully repaid on 28 June 2012.

Amount due to Niraku Investment Inc. was unsecured, interest-free and repayable on demand. The amount was fully repaid on 14 October 2014.

	<b>As at 31 March</b>			<b>As at</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>30 September</b>
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>	<b>2014</b>
KAWASHIMA Co., Ltd.....	45	—	—	—
Niraku Investment Inc. ....	—	—	—	24
	<u>45</u>	<u>—</u>	<u>—</u>	<u>24</u>

**36 Business combination**

On 15 June 2012, the Group acquired all shares of JIN Corporation ("JIN"), a company operating pachinko and pachislot halls in Japan, from a third party with a total consideration of approximately ¥820 million. On the date of acquisition, the fair value of the net identifiable assets in JIN in aggregate amounted to ¥820 million and represented property, plant and equipment, other deposits and asset retirement obligation amounted to ¥772 million, ¥133 million and ¥85 million respectively. The acquisition was expected to increase the Group's operation scale and thus benefit the Group's business expansion plan.

Acquisition-related costs of ¥6 million have been charged to "administrative and other operating expenses" in the consolidated statements of comprehensive income for the year ended 31 March 2013. The revenue and net loss for year ended 31 March 2013 as though the acquisition date for the business combination had been 1 April 2012, are ¥222 million and ¥529 million, respectively. JIN was subsequently merged into Niraku Corporation on 30 September 2013.

**37 Subsequent events**

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 30 September 2014:

- (a) The Group entered into a master franchisee arrangement with a holder of the rights of operation and use of trademark LIZARRAN and of its know-how on 16 December 2013. According to the agreement, the Group is committed to open, as a minimum, 1 restaurant within the years from 2014 to 2028 and at the end of the year 2028, the Group must have 20 LIZARRAN establishments opened in Japan.
- (b) On 16 March 2015, the shareholders approved that (i) every issued share of nil par value will be sub-divided into 230 shares of nil par value with effect from 31 March 2015; and (ii) for the purpose of such sub-division, the number of shares authorised to be issued by the Company be increased from 20,000,000 shares to 2,000,000,000 shares with effect from 31 March 2015.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 September 2014 and up to the date of this report. No dividend or distribution has been declared or paid by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 September 2014.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

\* For identification purpose only



The information set out in this Appendix II to this prospectus does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this Prospectus, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and Appendix I to this Prospectus.

#### A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the shareholders of the Company as of 30 September 2014 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 30 September 2014 or at any future dates.

	<b>Audited consolidated net tangible assets of the Group attributable to the shareholders of the Company as at 30 September 2014 (Note 1)</b>	<b>Estimated net proceeds from the Global Offering (Note 2)</b>	<b>Unaudited pro forma adjusted net tangible assets attributable to the shareholders of the Company</b>	<b>Unaudited pro forma adjusted net tangible assets per Share (Notes 3, 5)</b>	
	<b>¥ million</b>	<b>¥ million</b>	<b>¥ million</b>	<b>¥</b>	<b>HK\$</b>
Based on an Offer Price of HK\$1.10 per Share . . . . .	<u>20,707</u>	<u>4,087</u>	<u>24,794</u>	<u>20.7</u>	<u>1.37</u>
Based on an Offer Price of HK\$1.28 per Share . . . . .	<u>20,707</u>	<u>4,884</u>	<u>25,591</u>	<u>21.4</u>	<u>1.41</u>

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*Notes:*

- (1) The unadjusted audited consolidated net tangible assets of the Group attributable to the shareholders of the Company as at 30 September 2014 is extracted from the accountant's report set out in Appendix I to this Prospectus, which is based on the audited consolidated net assets of the Group attributable to the shareholders of the Company as at 30 September 2014 of ¥20,879 million with an adjustment for the intangible assets as at 30 September 2014 of ¥172 million.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.10 and HK\$1.28 per Share, respectively, after deduction of the underwriting fees and other related expenses borne by the Company (excluding approximately ¥226 million listing expenses which have been incurred as of 30 September 2014) and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,195,850,460 Shares were in issue assuming that the Global Offering have been completed on 30 September 2014 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 September 2014.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Japanese Yen are converted into Hong Kong dollars at the rate of HK\$1.00 to ¥15.15.

**B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from our Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this Prospectus.*



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS**

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 completed our assurance engagement to report on the compilation of unaudited pro forma financial information 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 its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 September 2014, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 24 March 2015, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 30 September 2014 as if the proposed initial public offering had taken place at 30 September 2014. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended 30 September 2014, on which an accountant's report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 September 2014 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, 24 March 2015

\* *For identification purpose only*

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## APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS

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*The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this Prospectus received from DTZ Debenham Tie Leung Limited, an independent property valuer, commissioned by our Company, in connection with its opinion of value of the selected property interests of our Company as at 31 January 2015.*



16th Floor  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

24 March 2015

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

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\* for identification purpose only

Dear Sirs,

### **Instructions, Purpose and Date of Valuation**

In accordance with your instructions for us to value selected properties in which NIRAKU GC HOLDINGS, INC.\* (株式会社ニラク・ジー・シー・ホールディングス) (referred to as the “Company”) and its subsidiaries (together referred to as the “Group”) have interests in Japan (as more particularly described in the attached valuation certificates), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such properties as at 31 January 2015.

### **Definition of Market Value**

Our valuation of the each of the properties represents its market value which in accordance with The HKIS Valuation Standards (2012 Edition) issued by The Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

**Valuation Basis and Assumption**

In valuing the properties, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) published by the Stock Exchange and The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

Our valuations exclude any estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the properties in Japan, we have assumed that, unless otherwise stated, the transferable land use rights of the properties for their respective terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Group regarding the title to each of the properties and the interests of the Group in the properties. In valuing the properties, we have assumed that the Group has an enforceable title to each of the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted.

In respect of the properties situated in Japan, the status of titles and grant of major certificates approvals and licenses, in accordance with the information provided by the Group are set out in the notes of the respective valuation certificate.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

**Method of Valuation**

We have used investment approach by capitalising the current rent passing derived from the existing tenancies with due provision for reversionary rental income potential or the net earnings that would be generated from the property.

**Source of Information**

We have been provided by the Group with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

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## **APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS**

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In the course of our valuation, we have relied on a very considerable extent on the information given to us by the Group regarding the title to each of the properties and the interests of the Group in the properties. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of land and buildings, completion date of buildings, number of car parking spaces, particulars of occupancy, site and floor areas, interest attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on the information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

### **Title investigation**

We have been provided with extracts of documents relating to the titles of the properties in Japan, but no searches have been made in respect of the properties. We have not searched the original documents to verify ownership or to ascertain any amendment which may not appear on the copies handed to us. We are also unable to ascertain the title of the properties in Japan and we have therefore relied on the advice given by the Group regarding the Group's interests in Japan properties.

### **Site Inspection**

We inspected the exterior and, wherever possible, the interior of each of the properties between 28 and 31 October in 2014. However, no structural survey has been made, but in the course of our valuation, we did not note any serious defects. We are, however, not able to report that the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services.

We have not made any investigations into past or present uses, either of the property interests or any neighbouring land to establish whether there is any contamination or potential for contamination or buried cultural treasures to the property interests. We have assumed that no contamination or other adverse environment matters or buried cultural treasures exist in relation to the property interests that are sufficient to affect their values. Commensurate with our comments set out above, we have made no allowance in these valuations for any effect in respect of actual or potential contamination of land or buildings or buried cultural treasures. However, a purchaser in the market would, in practice, undertake further investigations than those undertaken by us. If it is subsequently established that contamination or buried cultural treasures exist at any of the properties or on any neighbouring land or that any of the premises have been, or are being, put to any contaminative use, then this might reduce the values now reported.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.



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**APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS**

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**Currency**

Unless otherwise stated, all sums stated in our valuations are in Japanese Yen, the official currency of Japan.

We enclose herewith a summary of our valuations and our valuation certificates.

Yours faithfully,  
for and on behalf of  
**DTZ Debenham Tie Leung Limited**

**Andrew K.F. Chan**  
Registered Professional Surveyor (General Practice)  
Registered China Real Estate Appraiser  
MSc, MHKIS  
Senior Director, Valuation & Advisory Services

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*Note: Mr. Andrew K.F. Chan is a Registered Professional Surveyor who has extensive experience in Asian countries including Japan.*

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**APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS**


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**SUMMARY OF VALUATIONS**

Property	Market value in existing state as at 31 January 2015 (¥)	Attributable interest to the Group (%)	Market value in existing state as at 31 January 2015 attributable to the Group (¥)
<b>Group I – Properties held by the Group for investment in Japan</b>			
1. Nomurasyoken Building, 104 and other tracts, Ekimae 2-chome, Koriyama-shi, Fukushima-ken, Japan 野村証券ビル 福島県郡山市駅前二丁目104番外	627,000,000	100	627,000,000
2. Nikku Club Omori, 217-6 and other tracts, Omori-nishi 3-chome, Ota-ku, Tokyo-to, Japan ニッケ倶楽部大森 東京都大田区大森西 三丁目217番6外	97,200,000	100	97,200,000
<b>Sub-total of Group I:</b>	<b>724,200,000</b>		<b>724,200,000</b>
<b>Group II – Property owned and operated by the Group in Japan</b>			
3. Koriyama City Hotel, 90 and other tracts, Ekimae 2-chome, Koriyama-shi, Fukushima-ken, Japan 郡山シティホテル 福島県郡山市駅前二丁目90番外	728,000,000	100	728,000,000
<b>Sub-total of Group II:</b>	<b>728,000,000</b>		<b>728,000,000</b>
<b>Total:</b>	<b>1,452,200,000</b>		<b>1,452,200,000</b>

**VALUATION CERTIFICATE**

**Group I – Properties held by the Group for investment in Japan**

<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Market value in existing state as at 31 January 2015</b>
1. Nomurasyoken Building, 104 and other tracts, Ekimae 2-chome, Koriyama-shi, Fukushima-ken, Japan 野村證券ビル 福島県郡山市駅前二丁目104番外	<p>The property is situated on a site of 456.40 sq m.</p> <p>The subject building consists of an 8-storey plus 1 basement office building of gross floor area and net rentable area of 2,699.35 sq m and 2,008.13 sq m respectively. The property is constructed of steel framed reinforced concrete and was completed in 1987.</p> <p>The property is in the centre of Koriyama city in front of Koriyama station on the JR Tohokuhonsen.</p> <p>The property is held freehold.</p>	<p>As at the date of valuation, the commercial portions of the property were subject to various tenancies for terms of 2 years at a current total monthly rent of ¥6,931,855.</p>	<p>¥627,000,000</p> <p>(100% interest attributable to the Group: ¥627,000,000)</p>

*Notes:*

- (1) The owner of the land with an area of 456.40 sq m is NEXIA Inc.\* (株式会社ネクシア).
- (2) The owner of the building with an area of 2,699.35 sq m is NEXIA Inc.\* (株式会社ネクシア).
- (3) The property is subject to a revolving mortgage with the maximum amount of ¥0.5 billion.
- (4) Inspection of the property was carried out by our valuer, Mr. Yasuhiro Takebe on 30 October 2014. Yasuhiro Takebe is a Registered Japanese Licensed Real Property Appraiser and a member of the Royal Institution of Chartered Surveyors.
- (5) Our key assumptions of the valuation are:

<b>Portion</b>	<b>Market Rent per month</b>	<b>Capitalisation Rate</b>
Aboveground office . . . . .	¥3,025 per sq m	7.8%
Basement office . . . . .	¥1,512 per sq m	7.8%
Retail. . . . .	¥4,537 per sq m	7.8%

In undertaking our valuation, we have made reference to lettings within the subject property as well as other similar properties within the same district. The monthly rental levels of major office on aboveground floor premises range from approximately ¥2,873 to ¥3,176 per sq m, the monthly rental levels of major office on basement floor premises range from approximately ¥1,436 to ¥1,588 per sq m, the monthly rental levels of major retail premises range from approximately ¥4,310 to ¥4,764 per sq m.

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 7.5% to 8.0% for this type of property.

The above market rents assumed by us are consistent with the relevant comparables after due adjustments. The capitalisation rates adopted are reasonable having regard to the analysed yields.

**VALUATION CERTIFICATE**

<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Market value in existing state as at 31 January 2015</b>
2. Nikku Club Omori, 217-6 and other tracts, Omori-nishi 3-chome, Ota-ku, Tokyo-to, Japan ニッケ倶楽部大森 東京都大田区大森西三丁目217番6外	<p>The property is situated on a site of 156.71 sq m.</p> <p>The subject building consists of a 3-storey residential building of gross floor area and net rentable area 263.58 sq m and 243.33 sq m respectively. The property is constructed of reinforced concrete and was completed in 1991.</p> <p>The property is in the residential area consisting of apartments and detached houses. It is about 3 minutes' walk from the nearest station, "Omori" station on the Keikyu Honsen.</p> <p>The property is held freehold.</p>	As at the date of valuation, the property was subject to various tenancies for terms of 2 years at a current total monthly rent of ¥713,000.	<p>¥97,200,000</p> <p>(100% interest attributable to the Group: ¥97,200,000)</p>

*Notes:*

- (1) The owner of the land with an area of 156.71 sq m is NEXIA Inc.\* (株式会社ネクシア).
- (2) The owner of the building with an area of 263.58 sq m is NEXIA Inc.\* (株式会社ネクシア).
- (3) The property is subject to a revolving mortgage with the maximum amount of ¥80 million.
- (4) Inspection of the property was carried out by our valuer, Mr. Hiroaki Honda on 28 October 2014. Hiroaki Honda is a Registered Japanese Licensed Real Property Appraiser.
- (5) Our key assumptions of the valuation are:

<b>Portion</b>	<b>Market Rent per month</b>	<b>Capitalisation Rate</b>
Residential . . . . .	¥2,917 per sq m	6.5%

In undertaking our valuation, we have made reference to lettings within the subject property as well as other similar properties within the same district. The monthly rental levels of major residence premises range from approximately ¥2,069 to ¥3,906 per sq m.

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 6.0% to 6.5% for this type of property.

The above market rents assumed by us are consistent with the relevant comparables after due adjustments. The capitalisation rates adopted are reasonable having regard to the analysed yields.

**VALUATION CERTIFICATE**

**Group II – Property owned and operated by the Group in Japan**

<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Market value in existing state as at 31 January 2015</b>
3. Koriyama City Hotel, 90 and other tracts, Ekimae 2-chome, Koriyama-shi, Fukushima-ken, Japan 郡山シティホテル 福島県郡山市駅前 二丁目90番外	<p>The property is situated on a site of 1,014.24 sq m.</p> <p>The subject building consists of an 11-storey plus 1 basement economy hotel of gross floor area of 2,994.38 sq m. The property, having 84 guest rooms, is constructed of a steel framed reinforced concrete and was completed in 1979.</p> <p>The property is in the centre of Koriyama city in front of Koriyama station on the JR Tohokuhonsen.</p> <p>The property is held freehold.</p>	As at the date of valuation, the property was occupied and operated by the Group as an economy hotel with ancillary retail facilities.	¥728,000,000 (100% interest attributable to the Group: ¥728,000,000)

*Notes:*

- (1) The owner of the land with an area of 1,014.24 sq m is Niraku Corporation\* (株式会社ニラク).
- (2) The owner of the building with an area of 2,994.38 sq m is Niraku Corporation\* (株式会社ニラク).
- (3) The property is subject to a revolving mortgage with the maximum amount of ¥1.3 billion.
- (4) Inspection of the property was carried out by our valuer, Mr. Yasunobu Uehara on 30 October 2014. Yasunobu Uehara is a Registered Japanese Licensed Real Property Appraiser.
- (5) Our key assumptions of the valuation are:

<b>Portion</b>	<b>Market Rent per month</b>	<b>Capitalisation Rate</b>
Hotel . . . . .	¥1,512 per sq m	8.0%
Retail (Pachinko hall) . . . . .	¥5,293 per sq m	8.0%

In undertaking our valuation, we have made reference to lettings within the subject property as well as other similar properties within the same district. The monthly rental levels of major hotel premises range from approximately ¥1,436 to ¥1,588 per sq m, the monthly rental levels of major retail premises range from approximately ¥5,029 to ¥5,558 per sq m.

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 7.5% to 8.0% for this type of property.

The above market rents assumed by us are consistent with the relevant comparables after due adjustments. The capitalisation rates adopted are reasonable having regard to the analysed yields.



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.

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***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*

This Appendix sets out a summary of certain provisions of our Articles, the Japan Companies Act and certain other Japan laws and policies that may be relevant to our Company and investors. As the information contained below is in summary form, it does not purport to contain all of the information that may be important to our potential investors. This Appendix should be read in conjunction with “Key Japan Legal and Regulatory Matters”, which summarises the Japan legal and regulatory provisions which, in our Directors’ opinion, are considered more material to our Shareholders and investors.

Certain provisions under the Japan Companies Act have been amended in June 2014 and these amendments (the “*JCA Amendments*”) will take effect on 1 May 2015.

## **1. BACKGROUND**

Our Company was incorporated in Japan as a stock company\* (株式会社) on 10 January 2013. Our Articles of Incorporation comprise our Company’s constitution. The provisions normally set out in the articles of association of a Hong Kong-incorporated company are generally either contained in a Japanese company’s articles of incorporation or stipulated in the Japan Companies Act.

Our Articles were executed by the incorporator of our Company and certified by a notary public on the date of our incorporation. Our Articles have been amended from time to time. The current Articles were last amended on 16 March 2015 and will become effective on the Listing Date. An English translation of our Articles is available for inspection at the location specified in “Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection”.

## **2. OUR CORPORATE MATTERS**

### **(a) Objects of our Company**

Under our Articles:

Our Articles set out detailed and extensive, though non-exhaustive, lists of the purposes for which our Company was formed. Our Articles also allow our Company to undertake other business activities that are not explicitly stated in our Articles, provided that such activities are ancillary to the purposes of our Company stated in our Articles.

### **(b) Form of Company**

Under our Articles:

Our Company is a stock company\* (株式会社) with three committees, being our Audit Committee, Remuneration Committee and Nomination Committee.

Under the Japan Companies Act:

Companies are categorised into stock companies\* (株式会社) and partnership-type companies\* (持分会社). A partnership-type company is a generic concept that embraces so-called personal companies\* (人的会社) (that is, companies where there are strong personal connections between its members and where a high degree of flexibility in structuring corporate governance within the organisation is recognised), such as a general partnership company\* (合名会社), a limited partnership company\* (合資会社) and a limited liability company\* (合同会社).

Companies are also categorised into public or non-public companies, and large or other companies. A public company\* (公開会社) is defined as a company whose articles of incorporation do not require the approval of the company for the transfer of any share of one or more classes of the company's stock. On the other hand, a non-public company\* (株式譲渡制限会社) is a company where regarding each class of stock issued by it, transfer of any share is restricted under the articles of incorporation. Under our Articles, transfer of our Shares are free from restriction or limitation and do not require the approval of our Directors and Shareholders. Our Company is therefore categorised as a public company. Companies whose balance sheet for the most recent fiscal year shows a capital of ¥500 million or more, or total liabilities of ¥20 billion or more are defined as large companies\* (大会社). There are certain differences in governance between large companies and other companies. Our Company is not a large company\* (大会社).

Under the Japan Companies Act, a company may select several types of corporate governance structures. Our Company is a company with three committees\* (委員会設置会社). Under the JCA Amendments, companies with three committees\* (委員会設置会社) will be renamed to companies with nomination committee etc.\* (指名委員会等設置会社). There is no change to the provisions governing this type of companies under the JCA Amendments in general.

**(c) Share capital, share certificates and SARs**

Under our Articles:

The total number of Shares authorised by our Shareholders to be issued of our Company under our Articles is 2,000,000,000 Shares. Our Company has abolished the unit share system (as described below). Our Company issues share certificates and has only one class of Shares (being common Shares\* (普通株式)). Our Company is a share certificate issuing company\* (株券発行会社).

Under our Articles, transfers of our Shares are free from restriction or limitation and do not require the approval of our Directors and Shareholders. Transfers of Shares are subject to certain procedures and requirements set out in our Articles. See “Key Japan Legal and Regulatory Matters – A. Bearer Shares” for details. Our Articles provide that the Terms of SARs (as defined below) must be determined by an ordinary resolution in a general meeting, subject to certain exceptions summarised in “– SARs” in this section below.

Under the Japan Companies Act:

### **Share capital**

The share capital of a company is divided into shares. The amount of core capital\* (資本金) is the amount paid in by those who are to become shareholders at the time of the establishment of the company, or the issue of shares. Up to half of this amount is not required to be capitalised, but this amount has to be kept as share premium\* (資本準備金). The amount of the share capital is required to be registered with the relevant authorities in Japan.

### **Share certificates**

The Japan Companies Act defines a “share certificate issuing company” as a company the articles of incorporation of which have provisions to the effect that a share certificate representing its shares (or, in the case of a company with class shares, shares of all classes) shall be issued. Our Company is categorised as a share certificate issuing company\* (株券発行会社).

A company which does not have provisions in its articles of incorporation to issue share certificates is a non-share certificate issuing company\* (株券不発行会社).

### **Transfer of Shares**

In principle, shares are freely transferable, but companies may place a restriction on transfer of shares, for example, by subjecting such transfer to shareholders or board approval. Transfer can be restricted to all the shares, or to a specific class of shares. Under our Articles, there is no restriction on the transfer of our Shares.

Transfer of shares in a share certificate issuing company shall not become effective unless the share certificates representing such shares are physically delivered; however, this shall not apply to the transfer of shares arising out of the disposal of treasury stock\* (自己株式). The subscriber for treasury stock\* (自己株式) in a share certificate issuing company\* (株券発行会社) shall become the shareholder of such shares on the day when the subscriber has paid consideration for such shares. Transfer of shares in a share certificate issuing company\* (株券発行会社) shall not be perfected against the company unless the name and address of the person who acquires those shares is stated or recorded in the share register.

There is no limitation on the ownership of our Shares under our Articles and the Japan Companies Act.

### **Classes of Shares**

The Japan Companies Act permits a company to issue shares with specified rights that are not associated with all shares. In order to issue classes of shares, the details and the number of such shares as can be issued need to be specified in the articles of incorporation. Our Company is permitted to issue only one class of Shares, being common Shares\* (普通株式).

***Unit share system***

Shareholders have, in principle, one vote per share. However, if a company adopts a unit share system, a vote is given not to each share, but to a unit of shares specified under its articles of incorporation. Under the Japan Companies Act, one unit of shares cannot exceed (i) 1,000 shares; and (ii) two-hundredth of the total number of issued shares of the relevant company. Shareholders who hold shares below a unit are entitled to require the company to repurchase these odd unit shares. Our Company does not adopt a unit share system.

***SARs***

The Japan Companies Act defines a SAR as a right by the exercise of which the holder is entitled to receive shares of the issuing company. SARs do not need to be combined with bonds. It is possible to grant SARs on their own as well as in combination with other financial products.

Japanese companies do not issue share options. Instead, under the Japan Companies Act, they are allowed to issue Share Acquisition Rights, or SARs, which entitle the holders to acquire shares against a company by exercising such right against it.

Unlike in other jurisdictions, Japanese companies conventionally do not have underlying share option scheme plans established for the purposes of setting out the basic terms of SARs (such as the maximum number of SARs that the directors or administrators are authorised to issue and the scope of the persons to whom the SARs may be issued) that will apply to all issues made under that plan. Instead, a Japanese company that issues SARs resolves the exact terms of the SARs by a resolution of the board of directors or shareholders each time it intends to issue SARs in accordance with the Japan Companies Act.

The terms of SARs to be determined by a shareholder resolution or board resolution (the “*Terms of SARs*”) include the matters such as (i) the number of the SARs to be issued and the contents of the SARs (e.g., the number of shares to be granted upon the exercise of the SARs or the method for calculating such number, the exercise price of the SARs or the method for calculating such price, the exercise period and any restriction on the transfer of the SARs); (ii) the amount to be paid for subscribing for the SARs or the method for calculating such amount; (iii) the date on which the SARs are to be allotted; and (iv) the date of payment for the subscription, if any). Depending on the situation of the issue of SARs, the Japan Companies Act determines whether such resolution is to be made at a board meeting or at a shareholders’ general meeting. In general, for a public company\* (公開会社) (which our Company is one), the board of directors may, in general, authorise the issue of SARs subject to the following exceptions (which are more common but non-exhaustive):

- (i) if SARs are issued in a gratuitous manner and they comprise an *especially favourable* term to the subscriber, or if the SARs are issued at a price *especially favourable* to the subscriber, a special resolution in a general meeting is required and the board of directors must explain why the SARs need to be issued in such a manner in such general meeting. According to a case decided by the Tokyo District Court on 30 June

2006, whether or not the issue of SARs is made at an “*especially favourable price/ especially favourable conditions*” is determined based on the price of the SARs at the time of issue, calculated pursuant to the option pricing theory and considering factors such as the market price of the shares, exercise price of the SARs, exercise period of the SARs, interest rate, and volatility of the price of the shares (the “*Fair Option Price*”). When the amount to be paid in upon issuance (or substantive consideration for SARs when they are issued without consideration) is significantly below the Fair Option Price, then in principle, the price or condition of the SARs is interpreted to be “*especially favourable*” SARs which may be issued to the existing shareholders with or without consideration. In such cases, shareholders are entitled to subscribe to the SARs in proportion to their shareholding; and

- (ii) our Articles provide that the remuneration of our Directors and Executive Officers must be determined by our Remuneration Committee. Therefore, if SARs are being issued to our Directors or Executive Officers as part of their remuneration, a resolution of our Remuneration Committee is required in addition to the Board or Shareholders’ resolution that determines the Terms of SARs.

In the case of our Company, our Articles provide that the Terms of SARs must be determined by an ordinary resolution in a general meeting, subject to exceptions (i) and (ii) above.

Since our incorporation, our Company has neither issued any SAR nor authorised or resolved to issue any SAR. There is no scheme or arrangement in respect of our Company or our subsidiaries that would otherwise be regulated by Chapter 17 of the Listing Rules upon Listing.

Our Company has no current intention to issue SARs. If we choose to do so upon Listing, we will comply with all applicable laws and regulations including Chapter 17 of the Listing Rules.

#### **(d) Directors**

##### **(i) General power**

Under our Articles and the Japan Companies Act:

Our Board of Directors shall (i) make decisions relating to important matters in connection with the execution of business operations; (ii) supervise our Directors and Executive Officers in the performance of their duties; and (iii) perform other duties as prescribed under our Articles and the Japan Companies Act.

It is mandatory for each stock company\* (株式会社) to have a director. In companies with three committees\* (委員会設置会社), there must be a board of directors consisting of at least three directors. Certain persons such as a juridical person may not become a director of a company. However, a public company\* (公開会社) (which our Company is one) may not limit the qualifications of directors by requiring such directors to be one of its shareholders.



In companies with three committees\* (委員会設置会社), directors, as a rule, do not execute the business of the company. The board of directors in those companies is intended to perform a supervisory role. The board of directors of a company with three committees\* (委員会設置会社) has the power to, amongst others:

- determine the execution of the business of the company;
- supervise the carrying out of duties by executive officers; and
- appoint and dismiss executive officers.

Matters which fall within exclusive jurisdiction of the board of directors (decision-making in certain significant matters involving the execution of business) include the following:

- basic management policy;
- appointment and dismissal of executive officers;
- matters regarding interrelationship between executive officers including divisions of duties between executive officers, hierarchy of commands of executive officers;
- introduction of a system to ensure compliance of executive officers carrying out duties with the law and the articles of incorporation;
- matters related to general meetings such as the convocation thereof;
- matters related to corporate reorganisations such as mergers, business transfers, demergers and statutory share exchanges;
- approval of transactions that the directors or executive officers may have a conflict of interests in; and
- discharge of liabilities of managements, including directors, in accordance with the Japan Companies Act and its articles of incorporation.

**(ii) Power to issue and allot Shares**

Under our Articles and the Japan Companies Act:

Under the Japan Companies Act, when a Japanese company issues new shares and SARs (including convertible bonds), certain subscription requirements (the “*Subscription Requirements*”) shall be determined. The Subscription Requirements include the number of shares or SARs (including convertible bonds) to be issued, price, payment due date and other matters prescribed under the Japan Companies Act.

Under our Articles, the Subscription Requirements of any new issue of Shares or SARs (including convertible bonds) must be determined by an ordinary resolution in a general meeting, provided however that the Subscription Requirements of the issue and allotment of Shares or SARs (including convertible bonds) at a price or term *especially favourable* to the allottees must be determined by a special resolution in a general meeting. Our Board may issue and allot the Shares or SARs once the Subscription Requirements have been determined and approved by an ordinary or special resolution (as the case may be) in a general meeting.

Our Articles further provide that (a) the total number of Shares authorised by our Shareholders to be issued is 2,000,000,000 Shares; and (b) our Shareholders may entrust the power to determine the Subscription Requirements of any new issue of Shares or SARs (including convertible bonds) to our Board by way of a general mandate. The authority of the said general mandate must be approved with an ordinary resolution (or a special resolution, if such mandate specifically provides for an allotment at a price or term *especially favourable*) in a general meeting, which resolution shall prescribe, among others, the maximum number of Shares and SARs to be issued and allotted under the general mandate and the minimum price to be paid by the allottees. Under our Articles, the general mandate shall not be effective for more than one year from the date of the resolution approving the same. As advised by our Japan Legal Adviser, our Issuing Mandate was duly approved by our Shareholders at our extraordinary general meeting held on 16 March 2015.

The Articles and Japan Companies Act provisions described above apply equally to the disposal of our treasury stock\* (自己株式), if any.

### ***Issuing mandate***

On 16 March 2015, our Board has been granted with the Issuing Mandate to issue, allot and deal in our Shares, the details of which are set out in “Appendix VI – Statutory and General Information – A. Further Information about our Company – 5. Extraordinary General Meeting held on 16 March 2015”. Under our Articles and the Japan Companies Act, the Issuing Mandate is only enforceable when:

- (i) our total number of issued Shares will not exceed 2,000,000,000 Shares, which is the total number of Shares authorised to be issued by our Company, as a result of the issue and allotment made under the Issuing Mandate; and
- (ii) the allotments under the Issuing Mandate are not made at a price or term *especially favourable* to the allottees, in which case a special resolution in a general meeting is required.

For the avoidance of doubt, the Issuing Mandate grants power to our Board to issue, allot and deal with Shares only and does not grant authority to issue SARs and dispose of treasury stock\* (自己株式). Our Japan Legal Adviser has confirmed that the Shareholders' resolution in our extraordinary general meeting held on 16 March 2015 approving the Issuing Mandate contained all the required information prescribed under our Articles. Our Directors have undertaken to the Stock Exchange that they will not exercise the Issuing Mandate if any of conditions (i) to (ii) set out above has not been fulfilled, in which case they will seek specific approval from our Shareholders in order to issue and allot new Shares.

As to the term "*especially favourable*" referred to in (ii) above, our Japan Legal Adviser has confirmed that there is no clear definition under Japan law as to the circumstances where the terms of an allotment may be deemed as *especially favourable* to the proposed allottees. Under the internal rules of The Japan Securities Dealers Association, an allotment may be taken as *especially favourable* to the proposed allottees when less than 90% of the market value of the Shares so allotted is set as consideration from the proposed allottees. Our Board may from time to time appoint an independent expert to determine whether an allotment is *especially favourable*.

***(iii) Power to dispose of the assets of our Company or any subsidiary***

*Under the Japan Companies Act:*

An Executive Officer may be authorised by our Board of Directors to determine and execute the disposal of our Company's assets unless such disposal constitutes transfer of material business for which Shareholders' approval is required. Neither our Directors nor our Board of the Directors of our Company have the power to dispose of any assets of any subsidiary of our Company. In addition, our Board of Directors (or an Executive Officer authorised by our Board) has the power to dispose of the shares of any subsidiary of our Company.

Under the JCA Amendments, Shareholders' approval is required if a company disposes such number of shares in its subsidiary provided that (i) the book value of such shares constitutes more than 20% of the total asset value of the company; and (ii) as a result of such disposal, the company is no longer entitled to exercise over 50% of the voting rights in such subsidiary.

***(iv) Compensation or payment to Directors for loss of office***

*Under the Japan Companies Act:*

A Director dismissed by an ordinary resolution of our Shareholders shall be entitled to demand damages arising from the dismissal from our Company, except in cases where there are justifiable grounds for such dismissal.

**(v) Loans and the giving of security for loans to Directors**Under our Articles:

There are provisions in our Articles of Incorporation prohibiting the making of loans or provision of security for loans to our Directors unless such loans or security for loans are permitted under the Japan Companies Act and the Companies Ordinance (as if our Company were a public company incorporated in Hong Kong).

Under the Japan Companies Act:

Under the Japan Companies Act, loans and the giving of securities for loans to directors are not prohibited so long as the material information regarding the relevant transaction is disclosed to the board of directors to consider and, if thought fit, approve the transaction.

**(vi) Financial assistance to purchase Shares of our Company**Under our Articles:

Our Company may not provide financial assistance to another person for the purpose of, or in connection with, a purchase made or to be made by any person of any Shares in our Company, unless permitted under the Japan Companies Act and the Companies Ordinance (as if our Company were a listed company incorporated in Hong Kong).

Under the Japan Companies Act:

There is no specific restriction under the Japan Companies Act on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. However, the following general provisions apply:

- (i) if a company's act of financial assistance is deemed to be a provision of benefit in connection with the exercise of shareholders' right, the directors and executive officers involved in such transaction may be subject to criminal liability and jointly and severally liable to the company for an amount equivalent to the value of such benefit;
- (ii) if a company's act of financial assistance is deemed to be a fake payment of subscription monies, the relevant issue and allotment of new shares may be deemed as invalid and the subscribers (and the directors, under the JCA Amendments) involved in such transaction may be jointly and severally liable to the company for an amount equivalent to the subscription monies involved;

- (iii) if a company's act of financial assistance is deemed to be an acquisition of treasury stock\* (自己株式) by the company for the account of the company, the regulations concerning the repurchase of its shares (as described in "Key Japan Legal and Regulatory Matters — D. Capital Structure — Share Repurchases") apply to that act. Although there are no established rules as to what constitutes an "*acquisition for the account of the company*" and it totally depends on the situation, an example for the case where a company's financial assistance to another person is likely to be deemed as "*acquisition for the account of the company*" is the case where all of the followings are applicable:
- (a) the company is aware that the financial assistance is provided for the purpose of the receiver's purchase of, or subscription for, its own or its holding company's shares;
  - (b) the company has no good reason to donate such financial assistance to such receiver;
  - (c) even though such financial assistance is provided in a form of "*loan*", there is no actual plan for the company to recover such loaned money; and
  - (d) any profit or loss accrued from purchase and sale of the shares purchased by the said receiver or dividend from such share belongs to the company (not the receiver).

***(vii) Disclosure of interests in contracts with our Company or any subsidiary***

*Under our Articles:*

A Director shall not vote on any resolution of our Board of Directors approving any contract or arrangement or any other proposal in which he/she or any of his/her close associates (as defined under the Listing Rules) has a special interest (as interpreted under the Japan Companies Act) or material interest (as explained under the Listing Rules) nor shall he/she be counted towards to quorum present at the meeting, unless otherwise permitted under the Japan Companies Act and the Listing Rules.

*Under the Japan Companies Act:*

If a Director has a conflict of interest in any contract to be entered into by our Company, the Director must disclose all material information regarding the relevant transaction to our Board of Directors to consider and, if thought fit, approve the transaction. However, there are no specific provisions concerning the disclosure of any interest by a Director in a contract to be entered into by a subsidiary of our Company.

***(viii) Remuneration****Under our Articles:*

Financial benefits of our Directors received from our Company as consideration for the execution of duties, including remuneration and bonuses shall be determined by our Remuneration Committee.

***(ix) Composition of the Board of Directors****Under our Articles:*

Our Company must have no more than ten Directors. The number and composition of the Board of Directors shall at all times comply with the requirements under the Japan Companies Act and the Listing Rules (including the requirements for Independent Non-executive Directors).

*Under the Japan Companies Act:*

It is mandatory for each company to have a director. Public companies\* (公開会社) (which our Company is one), companies with three committees\* (委員会設置会社) (which our Company is one), and companies with a board of statutory auditors\* (監査役) must have a board of directors. In these companies, there must be at least three directors.

***(x) Appointment of Directors****Under our Articles:*

Our Directors must be elected in a general meeting. Resolutions for the election of Directors shall be passed by majority vote of Shareholders present at the general meeting where the Shareholders holding one-third or more of the votes of the Shareholders entitled to vote are present. Directors shall not be voted by cumulative voting.

*Under the Japan Companies Act:*

For companies with three committees\* (委員会設置会社) (which our Company is one), directors must be appointed in the general meetings. A majority vote of the shareholders present in a general meeting where shareholders representing over one-third or more of the votes need to be present is required. When the appointment of two or more directors is on the agenda, shareholders may propose resorting to the cumulative voting system, but this can be prohibited under the articles of incorporation. We have prohibited the cumulative voting system in our Articles.

**(xi) Term of office**Under our Articles:

The term of office of each Director shall expire at the close of the AGM relating to the most recent business year ending within one year following the election of such Director. The term of office of a Director elected to fill a casual vacancy shall conclude simultaneously with the conclusion of the term of office of the other current Directors.

Under the Japan Companies Act:

For companies with three committees\* (委員会設置会社) (which our Company is one), the term of office of a director terminates at the close of the general meeting of shareholders relating to the last fiscal year ending within one year from the election of the director. However, such term may be shortened by the articles of incorporation or a resolution of a general meeting of shareholders. We have not shortened such term in our Articles.

Under the Japan Companies Act, a causal vacancy of directors must, unless under certain limited circumstances, be filled with shareholders' approval. See "Waivers - B. Additional Waivers - Articles of Incorporation - Casual Vacancy" for details.

**(xii) Removal of Directors**Under our Articles:

Resolutions for the dismissal of Director(s) shall be passed by an ordinary resolution of a general meeting before the expiration of the period of duty of such dismissed Director(s), regardless of the duty and capacity of such Director(s) in our Company.

Under the Japan Companies Act:

Directors can be dismissed any time in the general meeting by the majority votes of the shareholders (or a stricter resolution requirement prescribed under the articles of incorporation) present in a general meeting where shareholders holding the majority of all voting rights of the shareholders are present (or a quorum requirement prescribed under articles of incorporation provided that the quorum requirement shall at all times be more than one-third of all voting rights of the shareholders).

There is no specific provision under our Articles and the Japan Companies Act as to the retirement or non-retirement of our Directors under an age limit.

***(xiii) Written service contracts****Under our Articles:*

Our Company must enter into a written service contract with each Director. Any claim under such service contract shall not be affected whatsoever by the dismissal of the Director by the Shareholders.

***(xiv) Qualification Shares****Under our Articles:*

There is no specific provision in our Articles relating to qualification Shares. In order to be appointed as a Director, our Directors are not required to hold any Share in our Company.

*Under the Japan Companies Act:*

Public companies\* (公開会社) (which our Company is one) are prohibited to have qualification shares.

***(xv) Proceedings of a Directors' meeting****Under our Articles:*

The Chairman of our Board of Directors (elected in advance by our Board of Directors) shall convene a meeting of our Board of Directors and shall act as the chairperson of the meeting. Notice of the convocation of a meeting of our Board of Directors shall be sent to each Director at least three days prior to the scheduled date of such meeting. However, the notice requirement can be waived with the unanimous consent of all Directors or shortened in case of emergency.

A resolution of our Board of Directors shall be made by a majority of Directors present at a meeting where the majority of Directors entitled to vote are present. A Director shall not vote on any resolution of our Board of Directors approving any contract or arrangement or any other proposal in which he/she or any of his/her close associates (as defined under the Listing Rules) has a special interest (as interpreted under the Japan Companies Act) or material interest (as explained under the Listing Rules) nor shall he/she be counted towards to quorum present at the meeting, unless otherwise permitted under the Japan Companies Act and the Listing Rules.

***(xvi) Exemption of Directors from liabilities****Under our Articles and the Japan Companies Act:*

To the extent allowed under all applicable laws and regulations, our Company may discharge our Directors from liabilities owed to our Company by way of a resolution passed in a meeting of our Board of Directors, or our Company may enter into an agreement with an external Director\*



(社外取締役) to the effect that his or her liability for damages shall be limited except where they have been grossly negligent or have acted intentionally. If our Company enters into an indemnity with an external Director\* (社外取締役) (being a director who has never been a representative director\* (代表取締役), an executive director, an executive officer or an employee of our Group) then the maximum cap on his liability must be the amount provided under the prevailing applicable laws and regulations (which is currently two times of his annual remuneration).

***(xvii) Directors' duties****Under the Japan Companies Act:*

There is a mandate relationship between our Company and our Directors. As such, Directors have a duty to act as good managers. Directors owe a fiduciary duty vis-a-vis the company: i.e., the duty to comply with the law, our Articles, and the resolutions of our Shareholders, and loyally carry out their duties.

***(xviii) Retirement of Directors***

There is no specific provision under our Articles and the Japan Companies Act as to the retirement or non-retirement of our Directors under an age limit.

**(e) Executive Officers*****(i) General****Under the Japan Companies Act:*

In companies with three committees\* (委員会設置会社), instead of a representative director\* (代表取締役), there are executive officers who are appointed by the board of directors, but not necessarily from among the directors, and chief executive officers who are appointed by the board of directors from among executive officers to represent the company. There is a mandate relationship between the company and executive officers. Executive officers make decisions on the matters delegated to them by the decision of the board of directors, and execute the business of the company.

***(ii) Number of composition****Under our Articles:*

Our Company must not appoint more than ten Executive Officers.

Under the Japan Companies Act:

A company with three committees\* (委員会設置会社) must appoint at least one executive officer.

**(iii) Duties of Executive Officers**

Under the Japan Companies Act:

Our Executive Officers shall perform the following duties:

- (a) deciding on the execution of the operations of our Company that were delegated to our Executive Officers by our Board of Directors pursuant to the Japan Companies Act; and
- (b) the execution of the operations of our Company.

**(iv) Appointment of Executive Officers**

Under our Articles:

Our Executive Officers shall be elected by a resolution of our Board of Directors.

Under the Japan Companies Act:

Same as above.

**(v) Term of office**

Under our Articles:

The term of office of our Executive Officers shall expire at the close of the first meeting of our Board of Directors convened following the close of our AGM relating to the most recent business year within one year following their appointment. The term of office of an Executive Officer elected in order to fill a casual vacancy of an Executive Officer shall conclude simultaneously with the conclusion of the term of office of the other current Executive Officers.

Under the Japan Companies Act:

Same as above, unless shortened by the articles of incorporation.

**(vi) Chief Executive Officer**Under our Articles:

Our Chief Executive Officer shall be appointed by the resolution of our Board of Directors. Our Company may also have, but not required to have, through resolution by our Board of Directors, one president Executive Officer, several members of vice president Executive Officer(s), senior managing Executive Officer(s) and managing Executive Officer(s). The division of duties, command system and other matters concerning relationships among Executive Officers shall be determined by our Board of Directors.

Under the Japan Companies Act:

Under the Japan Companies Act, our Chief Executive Officer is the legal representative of our Company with the authority to sign and effect agreements for and on behalf of our Company.

**(vii) Remuneration**Under our Articles:

The remuneration of our Executive Officers shall be determined by our Remuneration Committee. If an Executive Officer concurrently serves as an employee of our Company, including as a manager, remuneration arising out of such concurrent post shall be determined by our Remuneration Committee as well.

**(viii) Borrowing power**Under the Japan Companies Act:

An Executive Officer may be authorised by our Board of Directors to determine and execute borrowings, including borrowings of a large amount.

**(ix) Exemption of Executive Officers from liabilities**Under our Articles and the Japan Companies Act:

Our Company may exempt current or past Executive Officers from their liabilities for negligence in their duties under the Japan Companies Act by way of resolution of our Board of Directors to the extent allowed under the Japan Companies Act, except where they have been grossly negligent or have acted intentionally.

**(f) Alternation of our Articles**

Under our Articles and the Japan Companies Act:

Our Company may amend our Articles by a special resolution (or a stricter resolution for certain items) of our Shareholders in a general meeting.

**(g) Alternation of capital**

Under our Articles and the Japan Companies Act:

***Increase and reduction of share capital***

The issued capital may be increased at the time of the issuance of shares and may be reduced by a special resolution of Shareholders in a general meeting. However, where the share capital is reduced in order to cover the deficit, an ordinary resolution at the AGM will suffice. When reducing the share capital, a procedure to protect the interests of creditors needs to be followed. The company must publicise the proposed reduction and inform creditors of their entitlement to an objection within a fixed period of no less than one month in the official gazette. The company also must individually notify known creditors, but this can be exempted under certain circumstances.

***Splits, gratuitous allocations and consolidations***

A company may at any time split shares on issue into a greater number by a resolution of the board of directors. Under the Japan Companies Act, a company may also allot any class of shares to the company's existing shareholders without any additional contribution by resolution of the board of directors (i.e. gratuitous allocation); provided that any such gratuitous allocation will not accrue to any treasury stock\* (自己株式). A company may at any time also consolidate its shares into a smaller number of shares by a special resolution in a general meeting of shareholders.

**(h) Variation of rights of existing shares or classes of shares**

Under our Articles and the Japan Companies Act:

Our Company is required to amend our Articles by way of special resolution in order to change the rights of our existing common Shares\* (普通株式) or to issue new classes of shares.

**(i) Voting / quorum requirements**

Under our Articles:

**Ordinary resolutions**

Unless otherwise provided under applicable laws and regulations or by our Articles, ordinary resolutions in a general meeting shall be passed by a majority of the voting rights of the Shareholders present and entitled to vote at the relevant meeting, where the Shareholders holding majority of the votes of Shareholders entitled to vote are present.

**Special resolutions**

Unless otherwise provided under applicable laws and regulations or by our Articles, special resolutions at a general meeting shall be passed by two-third of the voting rights of the Shareholders present and entitled to vote at the relevant meeting, where the Shareholders holding one-third of the votes of Shareholders entitled to vote are present.

Under the Japan Companies Act:

In an ordinary resolution, the resolution shall, unless otherwise provided in the articles of incorporation, be passed by a majority of the voting rights of the shareholders present and entitled to vote at the relevant meeting, where the shareholders holding majority of the votes of shareholders entitled to vote are present. Quorum can be set by the articles of incorporation. In a resolution to appoint or dismiss directors or statutory auditors\* (監査役), among others, even by the articles of incorporation, the quorum cannot be set below one-third. In a special resolution, the resolution shall be made by a majority of two-third (where a higher proportion is provided for in the articles of incorporation, that proportion) or more of the votes of the shareholders present at the meeting where the shareholders holding a majority (where a proportion of one third or more is provided for in the articles of incorporation, that proportion or more) of the votes of the shareholders entitled to exercise their votes at the shareholders' meeting are present. Quorum can be set by the articles of incorporation but cannot be set below one-third.

The requirements under the Japan Companies Act in respect of the requirements relating to ordinary and special resolutions have been modified by operation of our Articles as described above. Certain matters require a resolution requirement stricter than special resolutions. See “ - 4. Transactions Requiring Shareholder Approval” in this Appendix below for details.

**(j) Voting rights, right to demand a poll and right to speak**Under our Articles:

Our Company has not adopted the unit share system so that each Share, in general, entitles its registered owner one vote in our general meetings. Our Articles provide that our Company must count the number of voting rights actually voted by each Shareholder (or their respective proxy and/or representative) attending the general meeting. As such, voting at our general meetings is effectively conducted by way of poll and voting by show of hand is not possible under our Articles.

Our Company has only one class of Share and does not issue Shares which do not carry voting rights.

Under the Japan Companies Act:

Shareholders (excluding (i) a shareholder who is prescribed as an entity in a relationship that may allow the company to have substantial control of such entity through the holding of one quarter or more of the votes of all shareholders of such entity or other reasons; (ii) the company itself in respect of the treasury stock\* (自己株式); (iii) a shareholder who has less than one share unit; (iv) a class shareholder whose class shares do not carry voting rights and (v) a shareholder whose shares are to be repurchased pursuant to Paragraph 3 of article 140, paragraph 4 of article 160 and paragraph 2 of article 175 of the Japan Companies Act) have one vote per share or one vote per unit (for those who have adopted the unit share system). The method of voting is not restricted, and the chairperson of a general meeting generally may decide the voting method, which may include a vote by a show of hands or a standing or a poll, unless a resolution to adopt another voting method is made at the general meeting.

Under the Japan Companies Act, shareholders of a Japanese company who are entitled to at least one vote at a general meeting have the right to speak at such general meeting. If any inquiries are made by the shareholders at a general meeting, the directors must answer such inquiries except where: (i) such inquiries are not relevant to any agenda items for such general meeting; (ii) the common interests of the shareholders and/or personal interests of other shareholders may be jeopardised by the answering of such inquiries (e.g. where the inquiries are related to confidential information of the company or personal information of the other shareholders); (iii) any research or investigation is required to answer such inquiries (provided that the directors may not decline answering such inquiries if such research or investigation can be conducted easily or the shareholders have given prior notice of such inquiries to the company which gives a reasonable period of time for the company to conduct such research or investigation); (iv) such inquiries are substantially the same inquiries as those which have already been made at such general meeting; or (v) the directors have other valid reasons for not answering to such inquiries (e.g. such inquiries are likely made for the purpose of sabotaging such general meeting).

**(k) Shareholders' meetings**

*Under our Articles:*

**AGMs**

Under our Articles, we are required to convene our AGM within three months after the day following 31 March, which is the last day of each financial year and despatch the convocation notice of our AGM (together with its accompanying documents) at least 21 days prior to the date thereof.

**Extraordinary general meetings**

An extraordinary general meeting can be convened wherever necessary. Convocation notice of an extraordinary general meeting must be despatched to the Shareholders at least 14 days prior to the date thereof.

Our Company will announce the date on which an AGM or extraordinary general meeting is intended to be held at least ten weeks prior to such date. Such announcement will be made at our Company's website at [www.ngch.co.jp](http://www.ngch.co.jp) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk).

*Under the Japan Companies Act:*

There are two types of the shareholders' meeting: extraordinary general meeting and annual general meeting.

A company is required to convene an annual general meeting within three months after the end of each financial year and must despatch a convocation of the AGM at least 14 days before the meeting. Notice of convocation of a general meeting setting forth the time, place, purpose thereof and certain other matters set forth in the Japan Companies Act and relevant ordinances, together with business report\* (事業報告) and financial results must be mailed to each shareholder having voting rights at least two weeks prior to the date set for such meeting. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. Further, certain items to be included in the business report\* (事業報告) and notes to financial results may be provided on the company's website, rather than mailed directly to individual shareholders pursuant to the provisions of its articles of incorporation. Upon Listing, we will despatch our AGM convocation notice at least 21 days prior to the date thereof in compliance after Rule 13.46(2)(a) of the Listing Rules.

**(l) Transfer of Shares**

*Under our Articles and the Japan Companies Act:*

See "Key Japan Legal and Regulatory Matters - A. Bearer Shares".

**(m) Power for our Company to purchase our own Shares**

Under our Articles and the Japan Companies Act:

See “Key Japan Legal and Regulatory Matters - D. Capital Structure - Share Repurchases”.

**(n) Shares held by subsidiaries**

Under the Japan Companies Act:

Subsidiaries may not acquire shares of their parent company, subject to certain exceptions such as acquisition through certain mergers and acquisitions transactions, acquisitions without consideration, and acquisitions as distribution of surplus from a company other than the parent company. When a subsidiary acquires shares of its parent company pursuant to such exceptions, it is not entitled to vote at any general meeting and is required to dispose of them at an appropriate time.

**(o) Proxies**

Under our Articles and the Japan Companies Act:

See “Key Japan Legal and Regulatory Matters - B. Shareholders’ Meetings - Proxies and Corporate Representatives”.

**(p) Call of Shares and forfeiture of Shares**

Under the Japan Companies Act:

Our Company cannot issue partly-paid Shares, and therefore, our Company cannot make a call upon the Shareholders to pay any money unpaid on the Shares held by them. A special resolution in a general meeting is required if our Company wishes to merge or conduct other structural changes to our Company that may entail the forfeiture of any Shares in our Company. In order to protect minority shareholders, the Japan Companies Act provides that in general, shareholders who object to such a special resolution are entitled to receive the fair market value of such forfeited Shares from the relevant company.

**(q) Inspection of Share Register**

Under our Articles and the Japan Companies Act:

See “Key Japan Legal and Regulatory Matters - C. Shareholders’ Rights - Inspection of our Share Register”.



**(r) Inspection of register of Directors***Under the Japan Companies Act:*

There is no concept of a “*register of directors*” under Japan law. However, the name of each Director and Executive Officer are registered in the commercial register in accordance with the Japan Companies Act.

**(s) Inspection of other corporate records*****Accounting documents***

Shareholders who have 3% (or, where a lesser proportion is prescribed in the articles of incorporation, that proportion) or more of the voting rights in the company, or of the issued shares of the company are entitled to inspect and make a copy of the accounting documents by giving reasons. The company is not entitled to refuse the request unless (i) the shareholder makes this request to pursue goals other than the investigation for the protection or exercise of his or her rights, (ii) the shareholder makes this request to obstruct the company’s execution of business and to harm the common interests of shareholders, (iii) the shareholder is in a business substantially in competition with the company, or is involved in the business, (iv) the shareholder makes the request in order to report facts which he/she learns by inspecting or copying the account books or materials relating thereto to third parties for profit, or (v) the shareholder is a person who has reported facts which he/she has come to learn by inspecting or copying the account books or materials relating thereto to third parties for profit during the last two years.

If it is necessary in order to exercise the rights of a member of the parent company of a company, he/she (who has 3% or more of voting rights in the shares of such parent company) may, with the court’s permission, make the request stated above with respect to account books or materials relating thereto of such company. In those cases, the reasons for the request shall be disclosed.

***Commercial register***

A company is required to register certain matters such as (i) the purpose of the company, (ii) its trade name; (iii) the location of the principal office of the company; (iv) its share capital; (v) the total number of shares authorised to be issued; (vi) the details of shares; (vii) the number of share unit (if any); (viii) the total number of issued shares; (ix) the name, address and business office of the administrator of the share register (if any), (x) the matters regarding SARs; (xi) the names of directors and executive officers; (xii) members of the audit, remuneration and nomination committees; (xiii) if the company is a company with a board of directors, a company with accounting advisors, a company with an accounting auditor, a company with statutory auditors, a company with a board of statutory auditors and/or a company with three committees, a statement to that effect and other relevant information, (xiv) if there are provisions in the articles of incorporation with regard to exemptions from liability of directors, accounting advisers, statutory auditors, executive officers or accounting auditors, such provisions of the articles of

incorporation, (xv) there are provisions in the articles of incorporation with regard to the agreements for the limitation of liabilities assumed by external directors, accounting advisers, outside statutory auditors or accounting auditors, such provisions of the articles of incorporation, (xvi) the URL for disclosure of certain information to be included in financial statements, and (xvii) the matters regarding public notice. In addition to the above, certain corporate actions such as mergers\* (合併) are also registered.

Anyone may inspect the commercial register at the legal affairs bureau having jurisdiction over the company.

**(t) Dissolution and liquidation**

Under the Japan Companies Act:

***Dissolution***

A company may dissolve itself by adopting a special resolution in a general meeting. Upon dissolution of the company, its director(s) will cease to serve in such directorial capacity and the former director(s) will become the liquidator(s) of the company by default, unless otherwise provided for in its articles of incorporation or determined by a resolution in a general meeting. After the company is dissolved, it will continue to exist as a corporate entity. However, its sole purpose will be to liquidate itself. In other words, the dissolved company is not able to operate its business in the same manner as it did prior to the dissolution.

***Liquidation***

Once the company is dissolved, it will then proceed to liquidate itself. Liquidation is a procedure for the company to wind-up its affairs and eventually cease to be a corporate entity. During this process, liquidators will act as representatives of the company, replacing such representatives who were the company's representative director\* (代表取締役) or chief executive officer before the dissolution.

**(u) Untraceable members**

Under our Articles:

Where power is exercised to sell the Shares of a Shareholder who is untraceable under the Japan Companies Act, our Company shall not exercise such power unless (a) during a period of 12 years, at least three dividends in respect of the shares in question have become payable and no dividend during the period has been received; and (b) on expiry of the 12 years, our Company notifies the Stock Exchange of such intention and gives notice of its intention to sell the Shares by way of an advertisement published in a newspaper in both Japan and Hong Kong.

The provisions in our Articles in respect of untraceable members are in compliance with paragraph 13(2) of Appendix 3 to the Listing Rules.

Under the Japan Companies Act:

In cases where notices have not reached a shareholder for five consecutive years and the shareholder of such shares has not received dividends of surplus for five consecutive years, a company shall be entitled to sell or auction the shares of such a shareholder. In exercising this right, a company is required to make a public notice and make a demand to a shareholder or a registered pledgee of shares seeking no objection to such action at least three months before such sale or auction. We have implemented more restrictive provisions in our Articles as described in the immediately preceding paragraph.

**(v) Public notice**

Under our Articles:

Our Company is entitled to distribute our public notices electronically, though our Company must publish an announcement in the Nihon Keizai Shimbun newspaper, the South China Morning Post and Hong Kong Economic Journal in the event that such electronic distribution is impossible.

**(w) Three Committees**

Under our Articles:

Our Company is a company with three committees\* (委員会設置会社) and has established the Audit Committee, Remuneration Committee and Nomination Committee. Each such committee shall be composed of three or more Directors and the majority thereof shall be external Directors\* (社外取締役). The members of each such committee shall be appointed and dismissed by the resolution of our Board of Directors and the composition of each such committee shall, from time to time, comply with the requirements under the Japan Companies Act and the Listing Rules.

We have amended the rules of our Audit Committee, Remuneration Committee and Nomination Committee to comply with the content requirements under Chapter 3 of, and Appendix 14 to, the Listing Rules. See “Directors and Senior Management - Board Committees” for details.

Under the Japan Companies Act:

Under the Japan Companies Act, each of the three committees shall comprise three or more Directors and the majority of them shall be external Directors\* (社外取締役).

The nomination committee shall determine the contents of proposals regarding the election and dismissal of directors to be submitted to a general meeting.

The audit committee shall audit the execution of duties by executive officers and directors and preparing audit reports and determine the contents of proposals regarding the election and dismissal of accounting auditors and the refusal to re-elect accounting auditors to be submitted to a shareholders meeting.

The remuneration committee shall determine the remunerations for individual executive officers and directors.

**(x) Accounting auditors**

Under our Articles and the Japan Companies Act:

Accounting auditors shall audit the financial statements and the supplementary schedules thereof, the temporary financial statements as well as the consolidated financial statements of a company. The accounting auditor shall be elected in a general meeting. The term of office of accounting auditor shall expire at the close of the annual general meeting for the most recent financial year ending within one year following their election.

Our Company may exempt accounting auditors from their liabilities for negligence in their duties under the Japan Companies Act by way of resolution of our Board of Directors to the extent allowed under the Japan Companies Act, except where they have been grossly negligent or have acted intentionally. Our Company may enter into contracts with accounting auditor to the effect that the liabilities for negligence in its duties under the Japan Companies Act shall be limited to the amount provided for in applicable laws and regulations, except where its has been grossly negligent or have acted intentionally.

**(y) Quorum for meetings and separate class meetings**

Under our Articles:

Under our Articles, a quorum for an ordinary resolution shall be present where Shareholders holding a majority of the voting rights in our Company are present whereas a quorum for a special resolution shall be present where Shareholders holding one-third or more of the voting rights in our Company are present.

Further, our Company is not allowed to issue any class of shares other than our common Shares\* (普通株式). Our Articles therefore do not contain provision as to the circumstances where a separate class meeting is required.

**(z) Conflict of interests**

Under the Japan Companies Act:

In the following cases, the relevant directors and executive officers must disclose all the material facts regarding the transactions to the board of directors and seek its approval:

- where a director or executive officer effects a transaction within the area of business of the company for himself or for the benefit of a third party.
- where a director or executive officer effects a transaction with the company for himself or for the benefit of a third party.
- where the company effects a transaction with a third party involving a conflict of interests between the company and the director, such as in cases where the company guarantees the debt of the director to a lender.

Upon execution of the transaction, the director and executive officers executing the transaction shall also report promptly the material information regarding such transaction to the board of directors.

**(aa) Indemnification**

Under the Japan Companies Act:

If the officers (the directors, the executive officers and the accounting auditors) of a company shall be liable to such company for damages arising as a result of negligence of their duties, there are some indemnity provisions applicable to them under the Japan Companies Act.

**3. PROTECTION OF MINORITY SHAREHOLDERS**

Under our Articles and the Japan Companies Act:

**Request for a general meeting**

A Shareholder who has no less than 3% of the voting rights in our Company may request our Directors to convene a general meeting. If our Directors do not send out a convocation notice for such general meeting to be held and such general meeting is not convened by our Directors within eight weeks from the date of such request, the relevant Shareholder who made the request may convene a general meeting with court permission.

**Request for additional matters in a meeting agenda**

Any Shareholder who has either (i) no less than 1% of the voting rights in our Company; or (ii) no less than 300 Shares may request our Directors to include certain additional matter(s) or amend certain existing matter(s) in the meeting agenda of a general meeting. Such request must be made to our Directors no less than eight weeks prior to the general meeting of our Company. If the request is made to our Directors less than eight weeks prior to the general meeting, the requested additional matter(s) or amendment(s) may be included or made in the next general meeting of our Company.

Our Articles provide that we must announce (as a voluntary announcement on the Stock Exchange's website and our Company's website) the date of a general meeting no less than 10 weeks prior to the date of that meeting so that our Shareholders, if eligible, will have a two-week period to exercise the rights set out above.

**Request for last-minute amendments to a meeting agenda**

After the convocation notice of a general meeting has been despatched, a Shareholder is permitted to propose a last-minute amendment to the matters included in an existing meeting agenda of a general meeting of our Company without any prior notice if a matter of similar nature is included in the original meeting agenda. For example, a Shareholders may propose last-minute amendments to an existing meeting agenda and nominates a person for election as a director at any time before the relevant general meeting or even at the meeting, if the original meeting agenda includes a proposal of the appointment of a new Director, or Directors, to our Board of Directors. These last-minute amendments are a theoretical mechanism which, according to our Directors' knowledge, is exceptionally rarely put into actual practice in Japan.

If any agenda in a general meeting is rejected without receiving 10% of the votes cast in that general meeting, last-minute amendments of substantially the same nature will not be treated as an official agenda in the forthcoming general meetings within the following three years. For example, Shareholders may not be able to propose a person for election as a proposed Director as a last-minute amendment in the following three years if a last-minute nomination of the same person as a Director fails to receive 10% favourable votes in a general meeting in the past three years (so long as the background and conditions of both proposals are similar).

Due to these Japan law provisions, we are unable to comply with Rule 13.70 of the Listing Rules and paragraph 4(4) of Appendix 3 to the Listing Rules, which provide that (i) an issuer shall publish an announcement or issue a supplementary circular upon receipt of a notice from a shareholder to propose a person for election as a director at the general meeting where such notice is received by the issuer after publication of the notice of meeting; and (ii) the minimum length of the period for notice to propose a person for election as a director and that person to notify the issuer of his willingness to be elected, must be at least seven days. We have applied

for, and the Stock Exchange has granted us, a waiver from strict compliance with these requirements on the basis of the voluntary measures we put in place, the details of which are set out in “Waivers - B. Additional Waivers - Announcement of Nomination of Director(s)” and “Waivers - B. Additional Waivers - Articles of Incorporation - Nomination of Director(s).”

Shareholders and potential investors (in particular, CCASS Beneficial Owners, who customarily do not attend general meetings in person) should note that you may lose the chance to vote on a last-minute amendment if you do not attend a general meeting in person, or if you have not appointed a proxy to attend and vote on your behalf. Under our Articles, where a Shareholder (including CCASS Beneficial Owners, who cast their votes by giving instructions to HKSCC Nominees) has casted a written vote on the original matter (regardless of whether such vote was for, against or abstained from the relevant matter), his/her vote will be counted as abstention from any last-minute amendment thereof. If a Shareholder has not casted a written vote on the original matter, they will lose the right to vote on any last-minute amendment thereof unless they attend the relevant general meeting in person or through their proxies. CCASS Beneficial Owners who are unable to give instructions to HKSCC Nominees on the original matter prior to the specified deadline will lose their right to vote on any last-minute amendment thereof. In both circumstances, the voting rights of the relevant Shareholder / CCASS Beneficial Owner will not form the quorum of the original matter and any last-minute amendment thereof.

### **Casting your votes in different ways**

Under the Japan Companies Act, a Shareholder (including a nominee such as HKSCC Nominees) is permitted to divide his/her Shares and cast his/her votes corresponding to these Shares in different ways, casting his/her votes partly for and partly against a resolution. A Shareholder who wishes to cast his/her votes in different ways is required to notify our Company of his/her intention and the reasons therefor at least three days prior to the date of the relevant general meeting. Our Company may object to a Shareholder casting his/her votes in different ways if the Shareholder holds our Shares on his/her own behalf rather than as a nominee on behalf of others. Upon Listing, we will enclose a notification form with the convocation notice of each general meeting. Shareholders who wish to cast their votes in different ways should notify our Company by completing and returning the prescribed notification form to our Hong Kong Share Registrar. Shareholders (including nominee companies such as HKSCC Nominees) may also make a permanent election to cast their votes in different ways at all forthcoming general meeting, which may be withdrawn by writing to our Hong Kong Share Registrar.

### **Derivative Actions**

In a derivative action, shareholders are allowed to pursue the liability of directors vis-a-vis the company on its behalf. In addition to the recovery of the loss to the company, this system also functions as a deterrent against neglect of duties and wrongdoing by directors and other officers of the company. Shareholders who have held a share for six months or more (or, where a shorter period is prescribed in the articles of incorporation, that period or more) before taking action are entitled to require the company, in writing, to initiate an action to pursue the liability of directors, executive officers, accounting auditors, accounting advisors, statutory auditors\* (監査役)

incorporators, directors and statutory auditors\* (監査役) in the establishment procedure, and liquidators. However, if the action is intended for the unjust benefit of the plaintiff shareholder, or a third party, or to cause damage to the company, this does not apply. If the company does not take any action within 60 days of the request, the shareholder who made the request is entitled to initiate an action in pursuit of liability of the directors, executive officers, accounting auditors, accounting adviser, statutory auditors\* (監査役), incorporators, directors and statutory auditors\* (監査役) in the establishment procedure and liquidators. If, by waiting sixty days, there is a likelihood of irrecoverable loss caused to the company, the shareholder may initiate an action straight away. Liability of directors can be capped (i) by a resolution of the general meeting after the incident, or (ii) by a board resolution under the provisions of the articles of incorporation in advance. However, if shareholders holding not less than three hundredths (or, where a lesser proportion is prescribed in the articles of incorporation, that proportion) of the votes of all shareholders (excluding officers subject to the liability) state objections to such a cap during a specified period of time, the company is not permitted to give effect to the cap pursuant to the relevant provisions of the articles of incorporation.

#### **4. TRANSACTIONS REQUIRING SHAREHOLDERS APPROVAL**

*Under our Articles and the Japan Companies Act:*

##### **Ordinary resolutions\* (普通決議)**

Certain corporate acts and transactions must be, in general, approved by way of an ordinary resolution in a general meeting (i.e. a majority of the voting rights of the Shareholders present and entitled to vote at the relevant meeting, where the Shareholders holding majority of the votes of Shareholders entitled to vote are present). These corporate acts and transactions are, amongst others:

- distribution of surplus\* (剰余金);
- repurchase of shares;
- reduction of the amount of reserves;
- increase of the amount of core capital\* (資本金) by way of reduction of the amount of surplus;
- increase of the amount of reserves\* (法定準備金) by way of reduction of the amount of surplus\* (剰余金); and
- appropriation of its surplus\* (剰余金), including disposition of loss and funding of voluntary reserves.



***Special resolutions\** (特別決議)**

Certain corporate acts and transactions must be, in general, approved by way of a special resolution at a general meeting (i.e., two-third of the voting rights of the Shareholders present and entitled to vote at the relevant meeting, where the Shareholders holding a majority (or one third, if our Articles so provide) of the votes of Shareholders entitled to vote are present). These corporate acts and transactions are, amongst others:

- reverse stock split;
- issue and allotment to a third party (other than our Company and our existing Shareholders) at an *especially favourable* subscription price as described in paragraph (d)(ii) above;
- issuance of SARs at an especially favourable subscription price or especially favourable conditions as described in paragraph (c) above;
- distribution of dividend in kind without giving shareholders the rights to demand distribution in cash;
- acquisition at any time within two years after the incorporation of the company of assets that existed prior to such incorporation and which continue to be used for its business;
- merger;
- corporate split;
- share exchange\* (株式交換) and share transfer\* (株式移転);
- assignment of the entire business or a significant part of the business; and
- dissolution of the company.

***Qualified special resolutions* (特殊決議)**

With respect to resolutions for matters described below, the approval of both (i) 50% or more of the shareholders who are entitled to exercise their voting rights at a general meeting; and (ii) two thirds or more of the votes of such shareholders is required:

- amendment to the articles of Incorporation, as a result of which any or all of the Shares of the company is subject to transfer restriction and requires the approval of the board of directors;

- approval of an absorption-type merger\* (吸収合併) by which the company would be dissolved or of a statutory share exchange by which the company would become a wholly-owned subsidiary, where the Company does not restrict transfer of its shares and all or part of the consideration paid to the shareholders consist of shares with transfer restrictions; and
- approval of an incorporation-type merger\* (新設合併) by which the company would be dissolved or of a statutory share transfer by which the company would become a wholly-owned subsidiary, where the company does not restrict transfer of its shares and all or part of the consideration paid to the shareholders consist of Shares with transfer restrictions.

Absorption-type mergers\* (吸収合併) and incorporation-type mergers\* (新設合併) are the two types of mergers allowed under the Japan Companies Act. An absorption-type merger\* (吸収合併) is a merger whereby an existing company absorbs one or more other existing companies, while an incorporation-type merger\* (新設合併) is a merger whereby a new company is incorporated to absorb one or more existing companies.

As a general rule, a special resolution is sufficient for approving an absorption-type merger or an incorporation-type merger. However, as exceptions to the general rule, Japan law requires a more stringent approval requirement for the two types of transactions above as holders of shares without transfer restrictions in the pre- merger entity would, as a result of the two types of transactions above, become holders of shares with transfer restrictions in the post-merger entity, thereby limiting their equity interests.

With respect to resolutions for matters described below, the approval of both (i) 50% or more of all shareholders; and (ii) 75% or more of the votes of such shareholders is required:

- amendment to the Articles of Incorporation that would result in unequal treatment to any Shareholder.

### **Unanimous approvals**

Corporate acts and transactions that must be unanimously approved by the Shareholders are, amongst others:

- Amendments to the articles of incorporation reclassifying all of the shares of the Company into shares subject to a statutory call option of the company (similar to redeemable shares);
- conversion to general partnership company, limited partnership company or limited liability company (Article 776(1) of the Companies Act); and
- merger or share transfers in which all or part of consideration to the shareholders of a company to be absorbed or wholly acquired is the equity of a general partnership company, limited partnership company or limited liability company (Article 783(2) of the Companies Act);

- incorporation type merger in which each of general partnership company, limited partnership company or limited liability company will be established;
- full exemption from certain types of liability of a director, accounting auditor and executive officers;
- convocation of a general meeting without sending a convocation notice; and
- passing a written resolution without convening a general meeting.

## **5. ACCOUNTING AND AUDITING REQUIREMENTS**

*Under our Articles and the Japan Companies Act:*

### **Financial year**

Under our Articles, the financial year of our Company commences on 1 April of each year and ends on 31 March of each year.

### **Accounting documents**

Under Japan law and our Articles, we are required to convene our AGM within three months after the day following 31 March, which is the last day of each financial year. Under our Articles and the Listing Rules, we are required to despatch the convocation notice of our AGM at least 21 days prior to the date thereof. Upon Listing, we will, as required under the Listing Rules and the Japan Companies Act, prepare and despatch the following documents together with our AGM convocation notice:

- (a) a business report\* (事業報告), which would include overview of our key business status, such as, the progress and results of the business, capital expenditures and fund-raising, trends in assets and profit/loss in the most recent three financial years, corporate reorganisations, status of major subsidiaries, shares outstanding and major shareholders, SARs, operation systems, and a status update of other important aspects of our business. Our business report\* (事業報告) will be prepared in Japanese, English and Chinese upon Listing;
- (b) an audited financial report, which would include material annual financial information such as the auditor's report and opinion, the consolidated statement of income, consolidated balance sheet, consolidated statement of changes in net assets, and notes to the consolidated financial statements, and the same for the statements of our Company and of our Group on a consolidated basis, respectively. Our audited financial report will be prepared in accordance with the JGAAP as required under the Japan Companies Act in Japanese, English and Chinese; and

- (c) either (i) an annual report including our Group's annual accounts, which will be in compliance with the contents requirements under Appendix 16 to the Listing Rules; or (ii) a summary financial report, which will be in compliance with the contents requirements under Rule 13.46(2)(a) of the Listing Rules. Our annual report or summary financial report, as the case may be, will be prepared in accordance with the IFRS.

All documents above will be approved and authorised by our Board of Directors before they are despatched to our Shareholders. Once approved by our Board of Directors, our Company would despatch such financial statements and business reports\* (事業報告) to all registered Shareholders entitled to receive the convocation notices of the general meetings of our Company along with the convocation notice of an AGM at which statements are presented for reporting by the Chief Executive Officer of our Company or, in the limited instances set forth below, for the approval of Shareholders.

Upon Listing, our Company will hold a single AGM that fulfils both the requirements under the Companies Act and the Listing Rules.

#### ***Approval of financial statements***

In cases where the financial statements prepared in accordance with JGAAP having been approved by our Board satisfy the requirements prescribed by the ordinance of the Ministry of Justice as statements that accurately indicated the status of the assets and profits and losses of our Company in compliance with the Japan Companies Act and our Articles, our Chief Executive Officer must report the contents of such financial statements to our Shareholders at the AGM. This reporting requirement will be satisfied (and approval of the Shareholders will not be required) provided that the following requirements provided in the applicable ordinance of the Ministry of Justice are met:

- (1) the audit report prepared by the accounting auditor includes an unqualified opinion that the financial statements appropriately reflects in all material respects the assets and liabilities and the profit and loss of the Company in accordance with JGAAP;
- (2) the audit report prepared by our Audit Committee does not express the opinion that the method and result of the audit carried out by the accounting auditor is inappropriate;
- (3) there is no dissenting opinion submitted to our Audit Committee that the method and result of the audit carried out by the accounting auditor is inappropriate;

- (4) the audit report prepared by our Audit Committee has been delivered to the relevant Director designated to receive such report or, if no such designation has been made, the Director overseeing the preparation of the financial statements (the “*Designated Director*”), and the accounting auditor, prior to the later of:
- (i) one week after delivery of the audit report prepared by the accounting auditor to our Audit Committee, which shall be delivered on the later of the following dates:
    - (a) four weeks after the accounting auditor receives the financial statements from our Company;
    - (b) one week after the accounting auditor receives attachments\* (附屬明細書) to the financial statements; or
    - (c) a date separately agreed upon by the Designated Director, members of our Audit Committee and the accounting auditor as the deadline for the delivery of the audit report by the accounting auditor;
  - (ii) a date separately agreed upon by the Designated Director and our Audit Committee as the deadline for delivery of the audit report by our Audit Committee.

After the conclusion of the AGM convened, our Company must either, pursuant to the applicable ordinance of Ministry of Justice, (i) provide public notice of our balance sheet and profit and loss statements prepared in accordance with JGAAP of our Company or the digest thereof; or (ii) disclose the balance sheet and profit and loss statements prepared in accordance with JGAAP of our Company on the internet for a period of five years. If the financial statements prepared in accordance with JGAAP fail to meet the requirements of the applicable ordinance of the Ministry of Justice, Shareholders’ approval of such financials will be required to finalise them. If such Shareholders’ approval cannot be obtained, in order to finalise the JGAAP financial statements, our Board of Directors may revise such financial statements so that they meet the requirements of the applicable ordinance of the Ministry of Justice, in which case Shareholders’ approval will no longer be necessary. Alternatively, our Board of Directors may convene another Shareholders’ meeting to obtain Shareholders’ approval after amending the JGAAP financial statements in the event such amended financial statements still fail to meet the requirements of the applicable Ordinance of the Ministry of Justice. Since the requirement to present financial statements in accordance with JGAAP and financial statements in accordance with IFRS are independent of one another, in the event that Shareholders’ approval is required in connection with the JGAAP financial statements and our Company is unable to obtain such approval, the presentation of the financial statements in accordance with IFRS to Shareholders will not be affected. With regard to financial statements prepared in accordance with IFRS, although it may do so voluntarily, our Company is not required under the applicable ordinance of the Ministry of Justice and the Companies Act to obtain Shareholders’ approval of such financial statements at a Shareholders’ meeting. Our Company, in practice, will seek to obtain Shareholders’ approval of the IFRS financial statements at a Shareholders’ meeting, and if our Company is unable to obtain such Shareholders’ approval, our Company will revise our IFRS financials and convene another Shareholders’ meeting as soon as practicable to obtain Shareholders’ approval of the amended IFRS financials.

Our Company will procure our accounting auditors to prepare reconciliation between our financial statements under JGAAP and IFRS for each of our financial years upon the Listing and despatch such reconciliation documents to our Shareholders together with our annual report.

## **6. DIVIDENDS AND DISTRIBUTIONS**

### *Under our Articles and the Japan Companies Act:*

Under the Japan Companies Act, a company may stipulate in its articles of incorporation that its board of directors may determine dividend distribution unless such dividend is proposed to be paid in kind (other than shares, bonds (including convertible bonds) and SARs issued by such company, which the Japan Companies Act prohibits) without giving shareholders the right to demand distribution in cash (in which case a special resolution in a general meeting would be required). Accordingly, under our Articles, our Company may distribute dividend by a resolution of our Board of Directors unless such dividend is to be paid in kind (other than Shares, bonds (including convertible bonds) and SARs issued by our Company, which the Japan Companies Act prohibits) without giving Shareholders the right to demand distribution in cash. A resolution of our Board of Directors authorising a distribution of dividends must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of the assets to Shareholders and the effective date of the distribution.

Under the Japan Companies Act, Shares, bonds (including convertible bonds) and SARs issued by our Company are prohibited from being distributed as dividend and interim dividend can only be distributed as cash. Scrip dividends in the form of Shares, bonds (including convertible bonds) or SARs issued by our Company are prohibited under the Japan Companies Act. The Japan Companies Act provides that a company with a board of directors may distribute interim dividends every financial year if a company provides in its articles of incorporation that it may do so by a resolution of the board of directors. Our Articles contain such provision.

According to the Civil Code, claims, including shareholders' rights to receive distributions of dividends and residual assets, are extinguished if they had not been exercised for ten years, unless there is a Japanese court precedent permitting a provision to be included in the articles of incorporation of a Japanese company allowing shareholders' rights to receive distributions of dividends to be extinguished if it has not been exercised for five years. On 3 August 1927, the Supreme Court of Japan ruled that a Japanese company may, in its articles of incorporation, allow Shareholders' rights to receive dividends to be extinguished if it has not been exercised for a period less than ten years. Accordingly, under our Articles of Incorporation, all dividends unclaimed for six years after having been declared may be forfeited by, and reverted to, our Company.

***Distributable Amounts***

When we distribute dividends, the smaller amount of (i) 10% of the surplus so distributed, or (ii) an amount equal to one quarter of our share capital less the aggregate amount of our share premium\* (資本準備金) and legal reserve\* (利益準備金) as at the date of distribution needs to be set aside either as share premium\* (資本準備金) or legal reserve\* (利益準備金) until the aggregate amount of our share premium\* (資本準備金) or legal reserve\* (利益準備金) reaches one quarter of our core capital\* (資本金).

Under the Japan Companies Act, a company may distribute dividends up to the excess of the aggregate of (a) and (b) below, less the aggregate of (c) through (f) below, as at the effective date of the distribution (the “*Distributable Amount*”), if net assets are not less than ¥3,000,000:

- (a) the amount of retained earnings\* (剰余金), as described below;
- (b) in the event that extraordinary financial statements as at, or for a period from the beginning of the financial year to, the specified date are approved, the aggregate amount of (i) the aggregate amount as provided for by an ordinance of the Ministry of Justice as the net income for such period described in the statement of operations constituting the extraordinary financial statements, and (ii) the amount of consideration received for treasury stock\* (自己株式) disposed of during such period;
- (c) the book value of treasury stock\* (自己株式);
- (d) in the event that a company disposes of treasury stock\* (自己株式) after the end of the latest financial year, the amount of consideration received for such treasury stock\* (自己株式);
- (e) in the event described in (b) above, the amount of net loss for such period described in the statement of operations constituting the extraordinary financial statements; and
- (f) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of our goodwill and deferred assets exceeds the total of our share capital, share premium\* (資本準備金) and legal reserve\* (利益準備金), each such amount as it appears on the balance sheet as at the end of the latest financial year) all or a certain part of such excess amount as calculated in accordance with the ordinances of the Ministry of Justice.

For the purpose of (b) above, an extraordinary financial statement of a company is (aa) a balance sheet of such company as at the extraordinary account closing date, which is a particular date in the current financial year designated at the discretion of such company; and (bb) a profit and loss statement of such company for the period commencing from the first date of the current

financial year and ending on the extraordinary account closing date. Under Japan law, a company may opt to, but is not required under any circumstances to, prepare extraordinary financial statements, especially when such company wishes to know its financial status at a particular point of the current financial year.

For indicative purposes, our Company's annual report incorporating financial statements (or a summary financial report) prepared in accordance with IFRS will include the Distributable Amount as at the end of the fiscal year.

For the purposes of this Appendix, the amount of retained earnings\* (剰余金) is the excess of the aggregate of I. through IV. below, less the aggregate of V. through VII. below:

- I. the aggregate of other capital surplus\* (その他資本剰余金) and other retained earnings\* (その他剰余金) at the end of the last financial year;
- II. in the event that a company disposes treasury stock\* (自己株式) after the end of the last financial year, the difference between the book value of such treasury stock\* (自己株式) and the consideration received for such treasury stock\* (自己株式);
- III. in the event that core capital\* (資本金) is reduced after the end of the last financial year, the amount of such reduction less the portion thereof that has been transferred to share premium\* (資本準備金) and/or legal reserve\* (利益準備金) (if any);
- IV. in the event that share premium\* (資本準備金) and/or legal reserve\* (利益準備金) were reduced after the end of the last financial year, the amount of such reduction less the portion thereof that has been transferred to share capital (if any);
- V. in the event that a company cancels treasury stock\* (自己株式) after the end of the last financial year, the book value of such treasury stock\* (自己株式);
- VI. in the event that a company distributes dividends after the end of the last financial year, the aggregate of the following amounts:
  - a. the aggregate amount of the book value of the distributed assets, excluding the book value of such assets that would be distributed to shareholders as a result of their exercise of the right to receive dividends in cash instead of dividends in kind;
  - b. the aggregate amount of cash distributed to shareholders who exercised the right to receive a distribution in cash instead of a distribution in kind; and
  - c. the aggregate amount of cash paid to shareholders holding fewer shares than the shares that were required in order to receive a distribution in kind;



- VII. the aggregate amounts of a. through d. below, less e. and f. below:
- a. in the event that the amount of retained earnings\* (剰余金) was reduced and transferred to share premium\* (資本準備金), legal reserve\* (利益準備金) and/or core capital\* (資本金) after the end of the last financial year, the amount so transferred;
  - b. in the event that a company distributes dividends after the end of the last financial year, the amount set aside in the reserve\* (準備金);
  - c. in the event that a company disposes treasury stock\* (自己株式) through (x) a merger in which a company acquires all rights and obligations of another company, (y) a corporate split in which a company acquires all or a part of the rights and obligations of the split-off company or (z) a share exchange in which a company acquires all shares of another company after the end of the last financial year, the difference between the book value of such treasury stock and the consideration that the company received for such treasury stock;
  - d. in the event that the amount of retained earnings\* (剰余金) was reduced in the process of a corporate split in which a company transferred all or a part of its rights and obligations after the end of the last financial year, the amount so reduced;
  - e. in the event of (x) a merger in which a company acquires all rights and obligations of another company, (y) a corporate split in which a company acquires all or a part of the rights and obligations of the split-off or (z) a share exchange in which a company acquires all shares of another company after the end of the last fiscal year, the aggregate amount of (i) the amount of other capital surplus\* (その他資本剰余金) after such merger, corporate split or share exchange, less the amount of other capital surplus\* (その他資本剰余金) before such merger, corporate split or share exchange, and (ii) the amount of other retained earnings\* (その他剰余金) after such merger, corporate split or share exchange, less the amount of other retained earnings\* (その他剰余金) before such merger, corporate split or share exchange; and
  - f. in the event that an obligation to cover a deficiency, such as the obligation owed by a person who subscribed to newly issued shares with an unfair amount to be paid in, was fulfilled after the end of the last fiscal year, the amount of other capital surplus increased by such payment.

**7. MERGERS AND ACQUISITIONS**

Under the Japan Companies Act:

**(i) Mergers\* (合併)**

Absorption-type mergers\* (吸収合併) and incorporation-type mergers\* (新設合併) are the two types of mergers allowed under the Japan Companies Act. An absorption-type merger\* (吸収合併) is a merger whereby an existing company absorbs one or more other existing companies, while an incorporation-type merger\* (新設合併) is a merger whereby a new company is incorporated to absorb one or more existing companies.

The company must seek a special resolution under the Japan Companies Act and the articles of incorporation of the company at the a general meeting if it conducts a merger, unless:

- (i) the company is the surviving entity in relation to the merger and the consideration to be paid to the shareholders of the counterparty (absorbed entity) is 20% or less of the net asset of the company; or
- (ii) the counterparty has 90% or more of the outstanding shares of the company.

Shareholders who are opposed to the planned merger are entitled to require the respective company to purchase their shares at a fair price. Shareholders who have voting rights and have informed the company of their objection before the general shareholders' meeting and have voted against the merger, or shareholders who do not have voting rights, may exercise these rights. The appraisal right must be exercised within twenty days before the date the merger takes effect and the day before this date.

Since creditors may be affected by the merger, there is a procedure for the protection of creditors. The merging companies are under an obligation to publicly announce the merger in the official gazette and also to invite known creditors to come forward, if they object to the merger. By the articles of incorporation, companies may decide not to notify known creditors individually, but instead make an announcement in the daily papers, or notify the creditors by electronic means, in addition to the announcement in the official gazette.

If a creditor objects to the merger, the company needs to either (i) repay the debt even if it is not due, (ii) instead, provide collateral, or (iii) deposit an appropriate amount with a trust company or banks involved in trust business. However, the novelty since the 1997 amendments is that if there is no likelihood of the merger harming the creditors, these measures are not required.

Under the Japan Companies Act, it has become permissible to use the stock of the parent of the surviving company as consideration in an acquisition or disposal, thereby enabling triangular mergers.

In mergers by setting up a new company, the merger takes effect by registration. In mergers by absorption, the rights and obligations of the extinguishing company are transferred to the surviving company in a comprehensive manner on the agreed date on which the merger takes effect.

Japan law requires that certain general information is included in a convocation notice for an extraordinary general meeting (“EGM”), as well as certain other information, the content of which depends on the transaction(s) that is (or are) being contemplated. Regardless of the nature of the transaction any convocation notice must include (i) the date of the EGM; (ii) the place of the EGM and (iii) a list of matters to be resolved at the EGM.

In addition to the general content requirements for convocation notices noted above, for convocation notices which relate to gaining consent for merger contracts, the convocation notice must include the following key content requirements: (i) the reason for the proposed merger; (ii) the terms and conditions of the merger contract, (iii) the appropriateness of the consideration to be paid or received; (iv) the counterparty’s financial documents (balance sheet / profit and loss statement / business report / auditor’s report) of the latest financial year and (v) the counterparty’s material subsequent events after the end of the latest financial year.

## **(ii) Company splits\* (会社分割)**

A company split is a process whereby a stock company or a limited liability company (合同会社) transfers all or part of the rights and obligations pertaining to a certain division of the company to another existing company or a newly established company. The separation of rights and obligations pertaining to a division of such a company to an existing company is called absorption type company split\* (吸収分割), while the separation of rights and obligations pertaining to a division of such a company to a newly established company is called new incorporation type company split\* (新設分割). In each type of company split, as consideration for the separation of rights and obligations, the separating company will issue or pay shares, bonds, SARs, cash or other assets to the other company.

In a new incorporation type company split or an absorption type company split, the procedure is (i) the preparation of a plan for the split, or a contract of split; (ii) the making available of relevant documents for inspection; (iii) the approval by a general meeting, (iv) the procedure for the protection of creditors; and (v) registration.

The plan or the contract of a split must be made available for inspection by shareholders and creditors in the same manner as mergers. The plan or the contract is subject to approval at the general shareholders' meeting of the splitting company and, in cases of spin-off to another existing company, also by shareholders of that company by a special resolution of a shareholders' meeting. Shareholders who are opposed to the split are granted an appraisal right as with a merger. The procedure for the protection of creditors of those companies is also available.

The company must seek a special resolution at a general meeting if it conducts a company split unless:

- (i) the company split results in an establishment of a new company, and the company is the splitting entity in relation to the corporate split, and the assets to be transferred are 20% or less of the total assets of the company;
- (ii) the company split results in a consolidation with an existing company, and the company is the splitting entity in relation to the corporate split, and the net assets to be transferred is 20% or less of the total asset of the company;
- (iii) the company split results in a consolidation with an existing company (the "*Merging Entity*"), and the company is the Merging Entity, and the consideration to be paid to the counterparty (splitting entity) in relation to the corporate split is 20% or less of the net asset of the company; or
- (v) the company split results in a consolidation with an existing company, and the counterparty has 90% or more of the outstanding shares of the company.

As a rule, rights and obligations of the spitting company are transferred either to the newly established company or to the absorbing company. This also applies to employment contracts.

Japan law requires that certain general information is included in a convocation notice for an EGM, as well as certain other information, the content of which depends on the transaction(s) that is (or are) being contemplated. Regardless of the nature of the transaction any convocation notice must include (i) the date of the EGM; (ii) the place of the EGM and (iii) a list of matters to be resolved at the EGM.

In addition to the general content requirements for convocation notices noted above, for convocation notices which relate to gaining consent for company splits, the convocation notice must include the following key content requirements: (i) the reason for the proposed company split; (ii) the terms and conditions of the company split contract or plan; (iii) the appropriateness of the consideration to be paid or received, (iv) the counterparty's financial documents (balance sheet / profit and loss statement / business report / auditor's report) of the latest financial year; (v) the counterparty's material subsequent events after the end of the latest financial year and (vi) the articles of incorporation, directors, statutory auditors and accounting auditors of the newly-established corporation.

**(iii) Share exchange\* (株式交換) and share transfer\* (株式移転)**

A share transfer (株式移転) is a transaction whereby one or more companies create a new company and transfer all of their outstanding shares to that new company (i.e., creation of a newly incorporated company as their 100% parent) in return for shares, bonds, SARs, bonds with SARs (i.e. convertible bonds) or other assets of the new company.

A share exchange\* (株式交換) is a transaction whereby a company transfers all of its outstanding shares to an existing company (i.e., conversion of an existing company to a wholly-owned subsidiary of another existing company) in return for shares, bonds, SARs, bonds with SARs (i.e. convertible bonds) or other assets of the company that will become a new parent of such company.

The company must seek a special resolution at a general meeting if it conducts a share exchange unless:

- (i) the company is the squeezing entity in relation to the share exchange and the consideration to be paid to the shareholder of the counterparty (target entity) is 20% or less of the net assets of the company; or
- (ii) the counterparty has 90% or more of the outstanding shares of the company.

The company must seek a special resolution at a general meeting if it conducts a share transfer.

Japan law requires that certain general information is included in a convocation notice for an EGM, as well as certain other information, the content of which depends on the transaction(s) that is (or are) being contemplated. Regardless of the nature of the transaction any convocation notice must include (i) the date of the EGM; (ii) the place of the EGM and (iii) a list of matters to be resolved at the EGM.

In addition to the general content requirements for convocation notices noted above, for convocation notices which relate to gaining consent for share exchange contracts, the convocation notice must include the following key content requirements: (i) the reason for the proposed share exchange; (ii) the terms and conditions of the share exchange contract; (iii) the appropriateness of the consideration to be paid or received, (iv) the counterparty's financial documents (balance sheet / profit and loss statement / business report / auditor's report) of the latest financial year and (v) the counterparty's material subsequent events after the end of the latest financial year.

Further, in addition to the general content requirements for convocation notices noted above, for convocation notices which relate to gaining consent for share transfer plans, the convocation notice must also include the following key content requirements: (i) the reason for the proposed share transfer plan; (ii) the terms and conditions of the share transfer; (iii) the company's financial documents (balance sheet / profit and loss statement / business report / auditor's report) of the latest financial year; (iv) the company's material subsequent events after the end of the latest financial year and (v) the articles of incorporation, directors, statutory auditors and accounting auditors of the newly-established corporation.

**(iv) Business transfer\* (事業譲渡) and transfer of shares in a subsidiary**

A business transfer\* (事業譲渡) is a transaction whereby a company transfers all or a portion of its business\* (事業) to another entity. According to the judicial precedents, the term business\* (事業) is regarded to mean “a combination of assets and liabilities organised for a certain commercial purpose including a contractual relationship with its customers.” Based on this standard, bare assets which do not by themselves constitute business operations are not regarded as business\* (事業). In addition, under the JCA Amendments, transfers of shares in a subsidiary is generally subject to the same regulation as a business transfer\* (事業譲渡) if as a result of a transfer, the company no longer keeps the majority of voting rights of such subsidiary.

The contract by a company to transfer all of or a significant portion of its “business” (事業) (and, under the JCA Amendments, transfers of shares in a subsidiary if as a result of a transfer, the company no longer keeps the majority of voting rights of such subsidiary) to another entity is subject to the special resolution of a shareholders' meeting unless:

- (i) the consideration to be paid by the transferee to the stock company (or, under the JCA Amendments, the book value of the shares in a subsidiary to be transferred) is 20 % or less of the total assets of the stock company; or
- (ii) the transferee has 90% or more of the outstanding shares of the company.

Shareholders who opposed to the business transfer\* (事業再編) are given appraisal rights.

Japan law requires that certain general information is included in a convocation notice for an EGM, as well as certain other information, the content of which depends on the transaction(s) that is (or are) being contemplated. Regardless of the nature of the transaction any convocation notice must include (i) the date of the EGM; (ii) the place of the EGM and (iii) a list of matters to be resolved at the EGM.

In addition to the general content requirements for convocation notices noted above, for convocation notices which relate to gaining consent for business transfers\* (事業譲渡) (or transfer of shares in a subsidiary), the convocation notice must include the following key content requirements: (i) the reason for the proposed business transfer\* (事業譲渡) (or transfer of shares in a subsidiary); (ii) the terms and conditions of the business transfer\* (事業譲渡) (or transfer of shares in a subsidiary) contract and (iii) the appropriateness of the consideration to be received.

**(v) Business assumption\* (事業譲受)**

A business assumption\* (事業譲受) is a transaction whereby a company assumes all or a portion of its business\* (事業) from another entity. According to the judicial precedents, the term business\* (事業) is regarded to mean “a combination of assets and liabilities organised for a certain commercial purpose including a contractual relationship with its customers.” Based on this standard, bare assets which do not by themselves constitute business operations are not regarded as business\* (事業).

The contract by a company to assume all of the business\* (事業) from another entity is subject to the special resolution of a general meeting unless:

- (i) the consideration to be paid by the stock company to the transferor is 20 % or less of the net assets of the company; or
- (ii) the transferor has 90% or more of the outstanding shares of the company.

Shareholders who opposed to the business assumption\* (事業譲受) are given appraisal rights.

Japan law requires that certain general information is included in a convocation notice for an EGM, as well as certain other information, the content of which depends on the transaction(s) that is (or are) being contemplated. Regardless of the nature of the transaction any convocation notice must include (i) the date of the EGM; (ii) the place of the EGM and (iii) a list of matters to be resolved at the EGM.

In addition to the general content requirements for convocation notices noted above, for convocation notices which relate to gaining consent for business assumptions, the convocation notice must include the following key content requirements: (i) the reason for the proposed business assumption; (ii) the terms and conditions of the business assumption contract and (iii) the appropriateness of the consideration to be paid.

**8. COMPULSORY ACQUISITIONS**

*Under the Japan Companies Act and our Articles:*

**General provisions**

Under the Companies Ordinance, the minority shareholders of a Hong Kong-incorporated company may be compulsorily brought out or may require an offeror to buy out their interests if the offeror acquires 90% of the issued shares in a successful takeover without shareholders' approval. Under the relevant Japan laws and regulations, compulsory acquisitions can be achieved without shareholders' approval by the following transactions:

- (i) An offeror (which must be a Japan-incorporated company) having acquired 90% or more of the voting rights in a stock company\* (株式会社) (which our Company is one) may (aa) acquire the remaining interests of the minority shareholders by way of a share exchange\* (株式交換) arrangement; or (bb) cash out the remaining interests of the minority shareholders by way of a merger\* (合併) arrangement (the "*JCA Compulsory Acquisitions*") only with the approval of the board of directors of the said company. In case of a share exchange\* (株式交換) arrangement, the offeror must be a stock company\* (株式会社) or a limited liability company\* (合同会社).
- (ii) Under the JCA Amendments, which will come into effect at a later date to be announced by the relevant Japanese authority, an offeror having acquired 90% or more of the voting rights in a stock company\* (株式会社) (which our Company is one) may compulsorily acquire the interests of all remaining shareholders only with the approval of the board of directors of the said company (the "*JCA Amendment Compulsory Acquisition*").

Other than the transactions above, there is currently no provision under Japan laws and regulations similar to the compulsory acquisition regime under the Companies Ordinance that would otherwise allow an offeror in a successful takeover to buy out the minority shareholders without shareholders' approval, regardless of the shareholding percentage acquired by such offeror.

**Alternative Share Transactions subject to Shareholders' approval**

Apart from the JCA Compulsory Acquisitions and the JCA Amendment Compulsory Acquisition, under Japan laws, an offeror of a successful takeover or the minority shareholders of a Japan-incorporated company may also achieve a similar outcome of compulsory acquisitions by proposing the following transactions (the "*Share Transactions*") to the subject company, all of which are subject to shareholders' approval:

- (1) conversion of the interests held by the minority shareholders into callable shares, pursuant to which holders of such shares may only receive fractional shares upon exercise of the relevant call option (as a result, minority shareholders may only receive cash in consideration) (the "*Issue of Callable Shares*"). Our current Articles do not allow the issue of callable shares;



- (2) a merger\* (合併) arrangement, whereby the subject company is merged with another company to form a new merged entity. The minority shareholders, in consideration for their interests in the subject company being extinguished upon merger, do not receive any shares of the merged entity or only receive fractional shares of the subject company (as a result, minority shareholders may only receive cash in consideration) (the “*Merger*”);
- (3) a share exchange\* (株式交換) arrangement, whereby the entire issued shares of the subject company is acquired by an existing acquiror company (being a stock company\* (株式会社) or limited liability company\* (合同会社)). The minority shareholders, in consideration for transferring their interests in the subject company to the acquiror company, do not receive any shares of the acquiror company or only receive fractional shares of the acquiror company (as a result, minority shareholders may only receive cash in consideration) (the “*Share Exchange*”);
- (4) a share transfer\* (株式移転) arrangement, whereby the entire issued shares of the subject company is acquired by a newly incorporated stock company\* (株式会社). The minority shareholders, in consideration for transferring their interests in the subject company to the newly incorporated company, do not receive any shares of the newly incorporated company or only receive fractional shares of the newly incorporated company (as a result, minority shareholders may only receive cash in consideration) (the “*Share Transfer*”);
- (5) a consolidation of the shares of the subject company, whereby the minority shareholders only receive fractional shares in the subject company upon consolidation (as a result, minority shareholders may only receive cash in consideration) (the “*Share Consolidation*”).

To initiate the Share Transactions above, an offeror in a successful takeover or minority shareholders may either (i) request for the convocation of a general meeting; or (ii) request for additional matter(s) to be included in the agenda of a general meeting. See “Key Japan Legal and Regulatory Matters - B. Shareholders’ Meetings” for the detailed procedures.

Under the Japan Companies Act, the approval threshold of the Share Transactions above is two-third of the votes of shareholders present at a general meeting, which is significantly lower than the 90% threshold of the compulsory acquisition regime under the Companies Ordinance. As an enhanced measure of shareholders’ protections, our Articles provide that at least 90% of the votes of Shareholders present at a general meeting are required to (i) approve a Merger, Share Exchange, Share Transfer or Share Consolidation; and (ii) amend our current Article provision allowing our Company to issue callable shares. Our Japan Legal Adviser has confirmed that these Articles provisions are legal and enforceable under the relevant Japan laws and must be abided by any Shareholder (including an offeror in a successful takeover or minority Shareholders) who seeks to initiate the Share Transactions above.

Our Directors are of the view that, in relation to compulsory acquisitions, the level of protections under our Articles and the relevant Japan laws and regulations taken as a whole is largely commensurate to the shareholders' protections provided under the Companies Ordinance (given the Articles provisions put in place by us).

**Acquisition price**

Under the Companies Ordinance, compulsory acquisitions must be made at a price equivalent to the original offer price of the relevant takeover transaction. Under the relevant Japan laws and our Articles, there is no restriction on the acquisition price of the transactions set out above. However, minority shareholders may resort to the following court procedures:

- (a) In respect of an Issue of Callable Shares, minority Shareholders who (aa) have objected to these Share Transactions prior to the convocation of the relevant general meeting considering the same and have actually voted against these Share Transactions in such general meeting; or (bb) do not have voting right in such general meeting have a right to receive monetary compensation calculated based on the fair value of the shares acquired from them.
- (b) In respect of the Share Transactions, minority shareholders may, within three months from date of the shareholders' resolution approving the relevant Share Transactions, claim revocation of the said resolution as grossly improper under certain prescribed circumstances if the acquisition price is too low.
- (c) In respect of a JCA Compulsory Acquisition, Share Exchange, Share Transfer or Merger, minority Shareholders who (aa) have objected to these transactions prior to the convocation of the relevant general meeting considering the same and have actually voted against these transactions in such general meeting; or (bb) do not have voting right in such general meeting, may request the subject company to repurchase their shares at a fair price. If the subject company and the minority shareholders cannot agree on a fair price within 30 days from the effective date of such transactions, the minority shareholders may petition a court in Japan to determine the fair price within 30 days from the expiry date of the 30-day discussion period with the subject company.
- (d) Under JCA Amendments, dissenting minority shareholders of a Share Consolidation who hold fractional shares in the subject company are also entitled to an appraisal right similar to (c) above.

- (e) In respect of a JCA Compulsory Acquisition, apart from the right to request for a repurchase set out in (c) above, any minority shareholder who may suffer disadvantage in such JCA Compulsory Acquisition may also file a petition to a court in Japan to cease the JCA Compulsory Acquisition on the ground that it violates the law and/or the articles of incorporation\* (定款) of the subject company or that the acquisition price is significantly unfair.
- (f) In respect of a JCA Amendment Compulsory Acquisition, a minority shareholder may petition a court in Japan to determine the fair price or to cease JCA Amendment Compulsory Acquisition under certain prescribed circumstances.

Investors should however note that there may be significant delays and costs involved in the initiation of the aforementioned court procedures.

#### **Additional rights of minority shareholders to request for a share repurchase**

A Shareholder may, in addition to the above circumstance, require our Company to repurchase his/her Shares if he/she has informed our Company of his/her objection to the following transactions prior to the general meeting, and has voted against the special resolution in the general meeting in respect of the following transactions:

- (a) the introduction of restrictions on share transfers;
- (b) the introduction of a condition that permits our Company to force Shareholders to sell their Shares to our Company;
- (c) in case the following transactions are determined for a certain class of Shares without resolution of corresponding class Shareholders' meeting:
  - (1) consolidation of Shares or splitting of Shares;
  - (2) allotment of Shares without contribution;
  - (3) amendment to the Articles on the share unit;
  - (4) certain solicitation of persons to subscribe for the Shares of our Company;
  - (5) certain solicitation of persons to subscribe for the share options; and
  - (6) allotment of SARs without contribution.

In the above circumstances, a Shareholder must inform our Company of his/ her objection prior to the Shareholders' meeting and must vote against the special resolution at the general meeting. The Shareholder must specify the number of shares he/she wishes to have our Company purchase within 20 days prior to the effective date of the relevant transactions.

**9. FINANCING**

Under the Japan Companies Act:

Other than borrowing, companies may take measures to finance themselves as follows:

**(i) Issue of new shares**

See “— B. Our Corporate Matters — (d) Directors — (ii) Power to issue and allot shares” in this Appendix above.

**(ii) Issue of bonds**

The Japan Companies Act defines a bond as any monetary claim owed by a company by allotment under the provisions of the Japan Companies Act and which will be redeemed in accordance with the provisions on the matters listed in the items of the Japan Companies Act.

There are straight bonds and bonds with SARs (i.e. convertible bonds). The latter are bonds with SARs which are inseparable from the bond itself.

In cases where a company will issue bonds, the company must specify a bond manager and entrust the receipt of payments, the preservation of rights of a claim on behalf of the bondholders, and other administration of the bonds to that manager, unless the value of each bond is ¥100 million or more, or the total amount of the bonds divided by the minimum price of the bond is less than 50.

**10. FOREIGN EXCHANGE CONTROL**

The Foreign Exchange and Foreign Trade Act of Japan (Act No. 228 of 1949, as amended) and the cabinet orders and ministerial ordinances (collectively, the “*Foreign Exchange Regulations*”) thereunder govern certain matters relating to the issue of equity-related securities by us and the acquisition, holding and disposal of Shares by Foreign Investors (defined below).

For the purpose of this sub-section, an “*Exchange Resident*” is defined under the Foreign Exchange Regulations as:

- (i) an individual who resides within Japan; or
- (ii) a corporation whose principal offices are located within Japan;

An “*Exchange Non-Resident*” is defined under the Foreign Exchange Regulations as:

- (i) an individual who does not reside in Japan; or

- (ii) a corporation whose principal offices are located outside Japan.

As confirmed by our Japan Legal Adviser, branches and other offices located within Japan of non-resident corporations are regarded as Exchange Residents. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as Exchange Non-Residents.

A “*Foreign Investor*” is defined under the Foreign Exchange Regulations as:

- (i) an individual who is an Exchange Non-Resident;
- (ii) a corporation that is organised under the laws of a foreign country other than Japan or whose principal office is located outside Japan; or
- (iii) a corporation (a) 50% of more of the total voting rights of which are directly or indirectly held by individuals who are Exchange Non-Residents and/or corporations that are either organised under the laws of foreign countries other than Japan or whose principal office is located outside Japan; or (b) a majority of whose directors or officers, or directors or officers having the power of representation, are individuals who are Exchange Non-Residents.

Subscription for, or acquisition or disposal of, our Shares are generally not subject to filing requirements under the Foreign Exchange Regulations. However, investors may be required, in the following limited circumstances, to notify the Minister of Finance, Minister of Economy, Trade and Industry and the prime minister through The Bank of Japan prior to, or following, subscribing for, or acquiring or disposing of, the Shares.

**(i) Prior Notification**

In certain limited circumstances, Foreign Investors must submit prior notification (the “*Prior Notification*”) to The Bank of Japan within six months preceding (i) in case of subscription, the date of payment for subscription, (ii) in case of acquisition, the acquisition date or (iii) in case of disposal, the disposal date. Such Foreign Investor must wait for 30 days from the date on which the Prior Notification is received by The Bank of Japan before paying subscription monies for, acquiring, or disposing of, our Shares. Such period may be shortened to two weeks if the investment is not related to the safety of Japan.

There is a general exemption from the Prior Notification requirement if the Foreign Investor is a resident of, or a corporation organised under the laws of, the following exempted jurisdictions (the “*Exempted Jurisdictions*”), of which Hong Kong is one:

Albania	Finland	Mexico	St. Lucia
Algeria	Former Yugoslav	Micronesia	St. Vincent
Angola	Republic of	Moldova	Sudan
Antigua and Barbuda	Macedonia	Monaco	Suriname
Argentina	France	Mongolia	Swaziland
Armenia	Gabon	Morocco	Sweden
Australia	Gambia	Mozambique	Switzerland
Austria	Germany	Myanmar	Syria
Bahamas	Ghana	Namibia	Taiwan
Bahrain	Greece	Nauru	Tanzania
Bangladesh	Grenada	Nepal	Thailand
Barbados	Guatemala	Netherlands	Togo
Belgium	Guinea	New Zealand	Tonga
Belize	Guinea-Bissau	Nicaragua	Trinidad and Tobago
Benin	Guyana	Niger	Tunisia
Bhutan	Haiti	Nigeria	Turkey
Bolivia	Honduras	Norway	Uganda
Botswana	<b>Hong Kong</b>	Oman	Ukraine
Brazil	Hungary	Pakistan	United Arab Emirates
Brunei	Iceland	Panama	United Kingdom
Bulgaria	India	Papua New Guinea	Uruguay
Burkina Faso	Indonesia	Paraguay	USA
Burundi	Iran	Peru	Vanuatu
Cambodia	Ireland	Philippines	Venezuela
Cameroon	Israel	Poland	Vietnam
Canada	Italy	Portugal	Zambia
Central Africa	Jamaica	PRC	Zimbabwe
Chad	Jordan	Qatar	
Chile	Kenya	Republic of Congo	
Colombia	Kuwait	Republic of Georgia	
Costa Rica	Kyrgyzstan	Republic of Korea	
Côte d’Ivoire	Laos	Republic of South	
Croatia	Latvia	Africa	
Cuba	Lebanon	Romania	
Cyprus	Lesotho	Russia	
Czech Republic	Liechtenstein	Rwanda	
Democratic Republic	Lithuania	Samoa	
of Congo	Luxembourg	Saudi Arabia	
Denmark	Macau	Senegal	
Djibouti	Madagascar	Sierra Leone	
Dominica	Malawi	Singapore	
Dominican Republic	Malaysia	Slovakia	
Ecuador	Maldives	Slovenia	
Egypt	Mali	Solomon	
El Salvador	Malta	Spain	
Estonia	Marshall	Sri Lanka	
Ethiopia	Mauritania	St. Christopher and	
Fiji	Mauritius	Nevis	

A Foreign Investor who is required to submit the Prior Notification and does not do so or who submits a Prior Notification containing a misstatement and who subscribes for or acquires our Shares shall have committed an offence punishable by imprisonment for not more than three years or by a fine of not more than ¥1 million, or both. Where a Foreign Investor is a corporation, the representative person of such Foreign Investor such as a director, agent or employee, may be imprisoned for not more than three years or fined not more than ¥1 million, or both.

Where necessary, the Prior Notification will be filed by our Company on behalf of each Foreign Investor, except where the Foreign Investors acquire our Shares from an Exchange Resident, in which case such Exchange Resident should file the Prior Notification on behalf of the Foreign Investors. The obligations of the Foreign Investors are limited to the duty of providing certain information to our Company or the relevant Exchange Resident (as the case may be) as prescribed under the Foreign Exchange Regulations.

### **(ii) Post Reporting and Post-disposal Notification**

Where we have or a Foreign Investor has made a Prior Notification, such Foreign Investor is also required to make a post notification (the “*Post Reporting*”) to The Bank of Japan, within 30 days of the date of subscription or acquisition. Upon disposal of our Shares, such Foreign Investor is also required to make a post notification (the “*Post-disposal Notification*”) to The Bank of Japan within 30 days of the disposal date.

If a Foreign Investor fails to make the Post Reporting or the Post-disposal Notification, or if the Post Reporting or the Post-disposal Notification contains a misstatement, it shall be an offence punishable by imprisonment for not more than six months or by a fine of not more than ¥500,000, or both.

Where necessary, the Post Reporting will be filed by our Company on behalf of each Foreign Investor, except where a Foreign Investor acquires our Shares from an Exchange Resident, in which case such Exchange Resident should file the Post Reporting on behalf of the Foreign Investor. The Post-disposal Notification will be filed by our Company on behalf of the Foreign Investor. The obligations of the Foreign Investors are limited to the duty of providing certain information to our Company or the relevant Exchange Resident (as the case may be) as prescribed under the Foreign Exchange Regulations.

### **(iii) Post Notification**

If (i) a Foreign Investor subscribes for, or acquires our Shares (whether from an Exchange Resident, Exchange Non-Resident, another Foreign Investor or through a designated security company) or (ii) a Foreign Investor (who is an Exchange Non-Resident having acquired our Shares when he/she was an Exchange Resident) disposes of our Shares, the Foreign Investor would need to make a subsequent report (the “*Post Notification*”) to The Bank of Japan by the 15th day of the month following the month in which the date of such subscription, acquisition or disposal occurs.

For subscriptions or acquisitions, there is an exemption from the Post Notification requirement if, as a result of the subscription for, or acquisition of, our Shares, the number of Shares held by that Foreign Investor would be less than 10% of our entire issued share capital. In other words, potential investors who are Foreign Investors are exempted from all notification requirements under the Foreign Exchange Regulations if they are (i) residents of, or corporations organised under the laws of, the Exempted Jurisdictions, which include Hong Kong, and (ii) holders of such number of Shares representing less than 10% of our entire issued share capital.

If a Foreign Investor failed to make the Post Notification, or if the Post Notification contains a misstatement, it shall be an offence punishable by imprisonment for not more than six months or by a fine of not more than ¥500,000, or both. Where a Foreign Investor is a corporation, the representative person of such Foreign Investor such as a director, agent or employee, may be imprisoned for not more than six months or fined not more than ¥500,000, or both.

Where necessary, the Post Notification will be filed by our Company on behalf of each Foreign Investor, except where a Foreign Investor acquires our Shares from an Exchange Resident, in which case such Exchange Resident should file the Post Notification on behalf of the Foreign Investors. The obligations of the Foreign Investors are limited to the duty of providing certain information to our Company or the relevant Exchange Resident (as the case may be) as prescribed under the Foreign Exchange Regulations.

Where a Foreign Investor has made the Post Notification, such Foreign Investor is not required to notify The Bank of Japan upon disposal of our Shares, except under the circumstances (i) where the Foreign Investor acquires our Shares when he/she is an individual Exchange Resident and disposes of our Shares after he/she becomes an Exchange Non-Resident or (ii) as described in the paragraphs headed “— Foreign Exchange Report” below.

#### **(iv) Foreign Exchange Report**

Where an Exchange Resident acquires our Shares from an Exchange Non-Resident, or where an Exchange Resident transfers our Shares to an Exchange Non-Resident, such Exchange Resident must make a subsequent report (the “*Foreign Exchange Report*”) to The Bank of Japan within 20 days from the acquisition date or payment date, whichever comes later. There is an exemption from the requirement if:

- (i) the purchase price of the relevant Shares is no more than ¥1 million; or
- (ii) the acquisition or transfer is effected through any securities firm/bank or other entity prescribed under the Foreign Exchange Regulations as an agent or intermediary.

If an Exchange Resident fails to make the Foreign Exchange Report, or if the Foreign Exchange Report contains a misstatement, such Exchange Resident will be punishable by



imprisonment for not more than six months or by a fine of not more than ¥500,000, or both. Where an Exchange Resident is a corporation, the representative person of such Exchange Resident such as a director, agent or employee, may be imprisoned for not more than six months or fined not more than ¥500,000, or both.

The Foreign Exchange Report is filed by the Exchange Resident. Under the Foreign Exchange Regulations, the Exchange Non-Resident is not under a duty or obligation to file Foreign Exchange Report and will not be subject to any penalties for failure to file the Foreign Exchange Report.

### **CCASS Beneficial Owners**

Due to the inherent characteristics of CCASS, our Company is not able to ascertain the identity, and consequently the citizenship, of the CCASS Beneficial Owners. In addition, our Company does not have the capacity to ascertain the individual shareholding percentage of the CCASS Beneficial Owners. Consequently, Foreign Investors looking to hold their investments through CCASS are requested to notify our Company by writing to our headquarters in Japan or our principal place of business in Hong Kong prior to making their investment if (i) they are not citizens of an Exempted Jurisdiction (which includes Hong Kong); or (ii) their prospective shareholding interest in our Company exceeds 10% of our entire issued share capital.

Our Japan Legal Adviser has confirmed that the responsibility and obligation (where relevant) for filing the Post Notification, the Prior Notification, the Post Reporting and Post-disposal Notification is on the CCASS Beneficial Owners, instead of HKSCC Nominees. Under no circumstances would HKSCC Nominees accept any responsibility or liability for failure, on the part of the Foreign Investors, to file the Post Notification and the Prior Notification.

Foreign Investors are advised to consult their professional advisers before subscribing for, or acquiring or disposing of, our Shares as to the applicability of the Prior Notification, Post Notification, and Foreign Exchange Report requirements.

## **11. ANTI-MONOPOLY DISCLOSURE REQUIREMENTS**

When a corporate investor that fulfils certain criteria, such as domestic turnover prescribed by the Anti-Monopoly Act\* (独占禁止法) (Act No. 54 of 1947), acquires shares exceeding 20% or 50% of voting rights, the corporate investor is required to file a report to Japan Fair Trade Commission prior to such acquisition.

## **12. FINANCIAL INSTRUMENTS AND EXCHANGE ACT**

Although our Shares are not listed on a securities exchange in Japan or traded through the over-the-counter market in Japan, under Japan law, if our Company (i) has at least 1,000 registered Shareholders as at the end of any financial year or (ii) files a securities registration statement pursuant to the Financial Instruments and Exchange Act\* (金融商品取引法) (Act No. 25 of 1948) (the “FIEA”) in relation to a public offering\* (募集) or a secondary offering\* (売出) of

Shares in Japan, the ongoing disclosure requirements (mainly, periodic filing requirements, including the requirement to file an annual report, and filing of a current report\* (臨時報告書) whenever any unscheduled material event occurs that may be important to Shareholders) and tender offer\* (公開買付) rules under the FIEA will generally be applicable to our Company and/or our Shareholders.

Our Company currently has no current plan to file a securities registration statement under the FIEA and the requirements under the FIEA are expected to continue to be non-applicable to our Company and our Shareholders.

### **13. GENERAL**

Soga Law Office, our Japan Legal Adviser, has sent to our Company a letter of advice summarising certain aspects of our Articles, the Japan Companies Act and certain Japan laws, regulations and legislations. This letter is available for inspection as referred to in “Appendix VII - Documents Delivered to the Registrar of Companies and Available for Inspection”. Any person wishing to have a detailed summary of the Japan Companies Act or advice on the differences between it and the laws of any jurisdiction which such person believes may be applicable to such person is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation of our Company**

Our Company was incorporated as a stock company (株式会社)\* with limited liability in Japan under the Japan Companies Act on 10 January 2013. Accordingly, we operate subject to Japan law and our constitution comprises our Articles. A summary of various provisions of our Articles and the relevant aspects of Japan corporation law are set out in Appendix V to this Prospectus.

Our registered office in Japan is 1-1-39, Hohaccho, Koriyama-shi, Fukushima, Japan 963-8811 and we have established a principal place of business in Hong Kong at Room 505, 5th Floor, Hutchison House, 10 Harcourt Road, Hong Kong. Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 10 December 2014. Ms. YIU Wai Man Karen (姚慧敏) has been appointed as our agent for the acceptance of service of process in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our registered place of business in Hong Kong (as set out above).

**2. Changes in the capital structure of our Company**

Our Company does not have any specific value of authorised and issued share capital as the concept of shares with par value has been abolished under the Japan Companies Act. As at the date of incorporation (i.e. 10 January 2013), our Company had a core capital\* (資本金) of ¥6,600. The number of Shares authorised to be issued by our Company was 20,000,000 Shares, of which one class-A share and one common Share\* (普通株式) were issued and allotted to our Chairman.

Since the date of incorporation, the following changes have been made to our Company's share capital:

- (a) On 1 April 2013, our Board approved the Niraku Share Swap whereby Niraku Corporation became a wholly-owned subsidiary of our Company. As a result of the Niraku Share Swap, our core capital\* (資本金) was increased to ¥10 million and our total number of issued Shares was increased to one class-A share and 3,895,001 common Shares (普通株式). See "History and Corporate Development – Corporate Structure and Development – Group Companies – Our Company" for details.
- (b) On 9 December 2014, our Board resolved to cancel the one class-A share and convert it into one newly issued common Share\* (普通株式), which was allotted to our Chairman on the same day. As a result, our total number of issued Shares became 3,895,002 common Shares\* (普通株式).

- (c) On 16 March 2015, our Board resolved that: (i) each issued Share of nil par value be sub-divided into 230 Shares of nil par value with effect from 31 March 2015 so that our total number of issued Shares will increase from 3,895,002 Shares to 895,850,460 Shares; and (ii) for the purpose of such sub-division, the number of Shares authorised to be issued by our Company be increased from 20,000,000 Shares to 2,000,000,000 Shares with effect from 31 March 2015.

Assuming that the Global Offering becomes unconditional and the Offer Shares are issued but the Over-allotment Option is not exercised, the total number of Shares issued by us will be 1,195,850,460 Shares, with 804,149,540 Shares remaining unissued.

Assuming that the Over-allotment Option is exercised in full, a total of 1,240,850,460 Shares will have been issued and allotted as fully-paid and 759,149,540 Shares will remain unissued.

### **3. Changes in capital structure of our subsidiaries**

Our subsidiaries are Niraku Corporation, Nexia and Merrist, all of which are directly or indirectly wholly-owned by us. Set out below are the changes to the capital structure of our subsidiaries within the two years immediately prior to the issue of this Prospectus:

#### **(a) Niraku Corporation**

- (i) Niraku Corporation was incorporated on 27 August 1969. As at 1 April 2011, the commencement date of the Track Record Period, Niraku Corporation had a core capital\* (資本金) of ¥257 million. The number of shares authorised to be issued by Niraku Corporation was 20,000,000 shares and the total number of issued shares was 5,346,000 shares at that time.
- (ii) On 1 April 2013, our Board approved the Niraku Share Swap. As a result of the Niraku Share Swap, the total number of shares issued by Niraku Corporation was reduced to 4,935,000 shares. See “History and Corporate Development — Corporate Structure and Development — Group Companies — Niraku Corporation” for details.

#### **(b) Nexia**

- (i) Nexia was incorporated on 19 June 2009 in Japan with a core capital\* (資本金) of ¥30 million. On incorporation, the number of shares authorised to be issued by Nexia was 20,000 shares. As at 1 April 2011, the commencement date of the Track Record Period, a total of 3,000 shares were issued by Nexia.
- (ii) On 30 September 2014, as part of our Reorganisation, Nexia cancelled the 2,550 treasury stock\* (自己株式) in its capital, as a result of which the total number of shares issued by Nexia was reduced to 150 shares, all of which were wholly-owned by Niraku Corporation. See “History and Corporate Development — Corporate Structure and Development — Reorganisation” for details.

(c) **Merrist**

- (i) Merrist was incorporated on 24 February 2010 with a core capital\* (資本金) of ¥5 million. On incorporation, the number of shares authorised to be issued by Merrist was 2,500 shares, of which 500 shares were issued and allotted to Niraku Corporation.
- (ii) There has been no change to the capital structure of Merrist within the two years immediately preceding the date of this Prospectus.

**4. Reorganisation**

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation and our Company became the holding company of our Group. Our Reorganisation involved the following steps:

- (1) On 17 September 2014, our Company effected the Company Split. The primary aim of the Company Split was: (i) the consolidation the business and assets of, and incidental to, our Group's pachinko hall operations under our Company; and (ii) the establishment of the Excluded Group as the holding entities of the future private business ventures of, our Controlling Shareholders.

The Company Split was effected as follows:

- (i) **Incorporation of NI:** NI was incorporated in Japan on 17 September 2014 to serve as the holding entity of the Excluded Group and the prospective private business ventures of the Taniguchi Consortium that are unrelated to our core business of pachinko and pachislot hall operations.
- (ii) **Transfer of tangible assets to NI:** as part of the Company Split, we on 17 September 2014 transferred certain tangible assets totalling ¥1,110 million which, among others, included the entire issued stock of NUSA. No fixed asset, liability, contractual obligation and employee was transferred to NI as part of the Company Split.
- (iii) **Distribution of the shares in NI to our Shareholders:** as part of the Company Split, our Company on 17 September 2014 declared and distributed a distribution in specie\* (配当) out of its surplus\* (剰余金) by way of distributing 3,895,002 shares in NI, representing its entire number of issued shares, to our Shareholders whose names appear on our Share Register of the Company on 11 September 2014.

Each holder of the common Shares\* (普通株式) of our Company received shares in NI in an amount equivalent to the number of common Shares\* (普通株式) they held as at 11 September 2014. Given that there was only one class of shares in the share capital of NI, our Chairman, who held one class-A share in our Company

as at 11 September 2014, received one share in NI. As a result, all existing Shareholders as at 11 September 2014 became the shareholders of NI in proportion to the number of Shares they held in our Company as at 11 September 2014.

- (2) On 9 September 2014, Niraku Corporation acquired the Nakano Property from our Chairman, Mr. Tatsuo TANIGUCHI (谷口龍雄) and Mr. Masataka TANIGUCHI (谷口晶貴) in consideration for ¥382 million in cash. The consideration was based on the valuation of the Nakano Property conducted by an independent property valuer.
  
- (3) On 29 September 2014, Nexia acquired an aggregate of 2,550 shares in Nexia from Jukki Limited\* (有限会社十起), Densho Limited\* (有限会社伝承), Hokuyo Kanko Limited\* (有限会社北陽観光) and KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA) in consideration for ¥497,344,350 in aggregate. The consideration was calculated based on the valuation of Nexia conducted by an independent property valuer. The 2,550 shares became treasury stock\* (自己株式) in the capital of Nexia.

On 29 September 2014, Niraku Corporation acquired 150 shares in Nexia from Mr. Tatsuo TANIGUCHI (谷口龍雄) in consideration for ¥29,255,550. The consideration was calculated based on the valuation of Nexia conducted by an independent property valuer.

On 30 September 2014, Nexia cancelled the 2,550 treasury stock\* (自己株式) in its capital, as a result of which Nexia became an indirectly wholly-owned subsidiary of our Company.

## **5. Extraordinary general meeting held on 16 March 2015**

At an extraordinary general meeting of our Company held on 16 March 2015, our Shareholders resolved that, in summary:

1. conditional upon (1) the Listing having been duly approved by our Board in accordance with the provisions under the existing articles of incorporation\* (定款) of our Company; (2) the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange; (3) the Offer Price having been duly agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company; and (4) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the

Sole Global Coordinator acting for itself and on behalf of the Underwriters) and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

- (i) the Global Offering at the Offer Price was approved and our Board was authorised to effect the same and approve the issue and allotment of the Shares, as the case may be, pursuant to the Global Offering on and subject to the terms and conditions thereof as set out in this Prospectus and the Application Forms and all applicable laws and regulations in Japan and Hong Kong;
  - (ii) the Over-allotment Option at the Offer Price was approved and our Board was authorised and directed to do all such things and execute all such documents to effect the same and approve the issue and allotment of the Over-allotment Shares upon exercise of the Over-allotment Option;
  - (iii) the issue and allotment at the Offer Price of 300,000,000 Shares under the Global Offering and up to 345,000,000 Shares upon exercise of the Over-allotment Option were approved; and
  - (iv) for the purpose of paragraphs (i), (ii) and (iii) above, (a) the “*minimum amount of payment*”\* (払込金額) (as referred to under the Japan Companies Act) shall be HK\$0.01 per Share; and (b) our Board was authorised to determine the allocation of the Shares under the Hong Kong Public Offering and International Offering; and the requisite items under article 199 of the Japan Companies Act;
2. the Issuing Mandate, which is a general unconditional mandate was given to our Board to allot, issue and deal with, otherwise than pursuant to (i) a rights issue; or (ii) any specific authority granted by our Shareholders in general meeting(s), an aggregate number of Shares of not exceeding 20% of the total number of Shares issued by our Company immediately upon completion of the Global Offering, such mandate to remain in effect until whichever is the earliest of the conclusion of our next AGM unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions, or the expiration of the period within which our next AGM is required by our Articles or any applicable Japan laws to be held, or when varied, revoked or renewed by a resolution of our Shareholders in a general meeting. The Issuing Mandate is subject to our Articles, the Listing Rules and all applicable laws and regulations in Japan and Hong Kong and the allottees under the Issuing Mandate shall pay a minimal per Share subscription price of no less than 90% of the average closing market price for the five preceding trading days on which our Shares were traded on the Stock Exchange prior to the issue and allotments of Shares thereunder;

3. the Repurchase Mandate, which is a general unconditional mandate was given to our Board authorising it to exercise all powers to repurchase on the Stock Exchange or on any other approved stock exchange on which our securities may be listed and which is recognised by the SFC and Stock Exchange for this purpose, subject to and in accordance with our Articles, all applicable laws and regulation in Japan and Hong Kong, and the requirements of the Listing Rules or of any other stock exchange on which our securities may be listed, as amended from time to time. The aggregate number of Shares that could be repurchased under the Repurchase Mandate shall not exceed 10% of the total number of Shares issued by our Company immediately upon completion of the Global Offering, and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of our next AGM unless by a resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions, or the expiration of the period within which our next AGM is required by our Articles or any applicable Japan laws to be held, or until varied, revoked or renewed by a resolution of our Shareholders in a general meeting;
4. the Issuing Mandate in paragraph (v) above be extended by the addition to the aggregate number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Board pursuant to the Issuing Mandate of an amount representing the aggregate number of Shares repurchased by our Board pursuant to the Repurchase Mandate referred in paragraph (vi) above; and
5. our Articles were adopted in substitution of and to the exclusion of the existing articles of incorporation\* (定款) of our Company with effect from the Listing Date.

## **B. REPURCHASE OF OUR SHARES**

This sub-section sets out information required by the Stock Exchange to be included in this Prospectus concerning the repurchase by us of our own securities.

### **1. Provisions under the Listing Rules**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

#### **(a) Shareholders' approval**

Under the Listing Rules, all proposed repurchase of securities (which, under the Listing Rules and the Companies Ordinance, must be fully paid-up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.



**(b) *Source of funds***

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the Listing Rules and the applicable laws of the place of incorporation of the relevant listed company. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by us may be made out of our funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for the purpose of the repurchase.

**(c) *Trading Restrictions***

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

**(d) *Suspension of Repurchase***

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

**(e) Reporting Requirements**

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

**(f) Core Connected Persons**

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates and a core connected person is prohibited from knowingly selling his securities to the company.

**2. Provisions under the Japan Companies Act****(a) Source of funds**

Under the Japan Companies Act, the aggregate amount of money to be paid (or any other assets to be provided) in exchange for the repurchased shares must not exceed the Distributable Amount on the date that the repurchase comes into effect and such amount is to be calculated in accordance with the Japan Companies Act. In addition, if there is a possibility that the Distributable Amount on the last date of a financial year on which the repurchase is to be conducted may be a negative amount, the company may not repurchase its shares.

If a company acquires shares of its own under certain limited circumstances stipulated by the Japan Companies Act (for example, the company acquires its own shares from another company as a result of merger\* (合併)), the above restrictions on source of funds are not necessarily applied and the company must follow the applicable respective restrictions on funding stipulated by the Japan Companies Act.

**(b) Shareholders' approval**

Under the Japan Companies Act, a company may in general repurchase its shares through the following ways:

- (i) a company may repurchase its own shares upon agreement with one or more particular shareholder(s) with a special resolution in a general meeting approving (a) the number and class of the shares to be repurchased; (b) the contents and the aggregate amount of consideration to be paid in exchange for the repurchased shares (c) the period during which the company may repurchase its shares (which shall not be more than one year); and (d) the name of such particular shareholder(s). Once approved, the company may repurchase the shares within the scope of the special resolution

following certain prescribed procedures under the Japan Companies Act, provided however that, where the repurchase price exceeds the market price of the shares, the company shall give a notice to other shareholders to provide them with the opportunities to participate in the share repurchase prior to the general meeting approving the share repurchase;

- (ii) a company may repurchase its own shares through an offer to all shareholder with an ordinary resolution in a general meeting approving items (a) to (c) set out in (i) above. Once approved, the company may repurchase the shares within the scope of the ordinary resolution following certain prescribed procedures under the Japan Companies Act; and
- (iii) a company may repurchase its own shares through a market transaction etc.\* (市場取引等) as defined under the Japan Companies Act with an ordinary resolution in a general meeting or, where allowed under its articles, a resolution of its board of directors, approving items (a) to (c) set out in (i) above. Once approved, the company may repurchase the shares within the scope of the said resolution.

Upon Listing, we will effect repurchases of our Shares outside the Stock Exchange in accordance (i) and (ii) above, subject to compliance with all applicable Listing Rules and/or the Takeovers Code. Repurchases on the Stock Exchange will be effected under the Repurchase Mandate granted to our Board by our Shareholders on 16 March 2015 in compliance with Rule 10.06 of the Listing Rules and in accordance with (iii) above as market transactions etc.\* (市場取引等). Our Articles provide that repurchases of our own Shares can be effected through a market transaction etc.\* (市場取引等) as defined under the Japan Companies Act with a resolution of our Board (so long as such repurchases comply with the applicable requirements under the Listing Rules), allowing our Directors to effect repurchases under the Repurchase Mandate without Shareholders' specific approval.

(c) **Repurchase Mandate**

Based on the foregoing Articles and Japan law provisions, repurchases under the Repurchase Mandate must be market transactions etc.\* (市場取引等) as defined under the Japan Companies Act. There is no judicial precedent or interpretation confirming that a repurchase through the Stock Exchange, which is not a securities exchange in Japan, is a market transaction etc.\* (市場取引等). Given the lack of judicial precedent, our Directors have undertaken to the Stock Exchange that they will not exercise the Repurchase Mandate to repurchase our Shares on the Stock Exchange unless there is clear judicial authority allowing us to make repurchases on the Stock Exchange thereunder.

**3. Reasons for repurchases**

Our Directors believe that it is in the best interest of our Company and our Shareholders as a whole to have general authority from our Shareholders to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value and the assets of our Company and/or the earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

**4. Funding of repurchases**

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Articles, the Listing Rules and the applicable laws of Japan. On the basis of our current financial position as disclosed in this Prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this Prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

**5. General**

Exercise in full of the Repurchase Mandate, on the basis of 1,195,850,460 Shares in issue upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), could accordingly result in up to 119,585,046 Shares being repurchased by us during the period prior to the earliest of:

- (a) the conclusion of our Company's next AGM unless by ordinary resolution at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which our Company is required by the applicable Japan law or our Articles to hold our next AGM; or
- (c) when varied, revoked or renewed by a resolution of our Shareholders in a general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to us or our subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, our Articles, the Japan Companies Act and the applicable laws and regulations of Japan from time to time in force.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of us increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No core connected person has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## **6. Status of repurchases securities**

Under our Articles, our Company shall without delay cancel any treasury stock\* (自己株式) acquired by us through the resolution of our Board of Directors or decision of Executive Officer(s) authorised by our Board, if such cancellation is required under the Listing Rules. Hence, in compliance with Rule 10.06(5) of the Listing Rules, the listing of all repurchased securities (whether effected on Stock Exchange or otherwise) will be cancelled without undue delay and the certificates for those securities will be cancelled and destroyed. The number of Shares issued by our Company shall also be reduced accordingly.

## **C. FURTHER INFORMATION ABOUT OUR BUSINESS**

### **1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years immediately preceding the date of this Prospectus and are or may be material:





- (a) the share acquisition agreement dated 29 September 2014 entered into between Niraku Corporation (as transferee) and Mr. Tatsuo TANIGUCHI (谷口龍雄) (as transferor), pursuant to which Niraku Corporation acquired 150 common shares\* (普通株式) in Nexia, in consideration for an aggregate of ¥29,255,550;
- (b) the share acquisition agreement dated 29 September 2014 entered into between Nexia (as transferee) and Hokuyo Kanko Limited\* (有限会社北陽観光) (as transferor), pursuant to which Nexia re-purchased 750 common shares\* (普通株式) in Nexia, at an agreed consideration of ¥146,277,750 and an actual settlement amount of ¥117,939,333 upon deduction of withholding tax;

- (c) the share acquisition agreement dated 29 September 2014 entered into between Nexia (as transferee) and Densho Limited\* (有限会社伝承) (as transferor), pursuant to which Nexia re-purchased 750 common shares\* (普通株式) in Nexia, at an agreed consideration of ¥146,277,750 and an actual settlement amount of ¥117,939,333 upon deduction of the applicable withholding tax;
- (d) the share acquisition agreement dated 29 September 2014 entered into between Nexia (as transferee) and Jukki Limited\* (有限会社十起) (as transferor), pursuant to which Nexia re-purchased 750 common shares\* (普通株式) in Nexia, at an agreed consideration of ¥146,277,750 and an actual settlement amount of ¥117,939,333 upon deduction of the applicable withholding tax;
- (e) the share acquisition agreement dated 29 September 2014 entered into between Nexia (as transferee) and KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA) (as transferor), pursuant to which Nexia re-purchased 300 common shares\* (普通株式) in Nexia, at an agreed consideration of ¥58,511,100 and an actual settlement amount of ¥47,175,733 upon deduction of the applicable withholding tax;
- (f) the Deed of Non-Competition;
- (g) the Deed of Indemnity; and
- (h) the Hong Kong Underwriting Agreement.

## 2. Our material intellectual property rights






### (a) Trademark

As at the Latest Practicable Date, we were the registered owner of the following trademarks which we believe are material to our business:

Trademark	Place of Registration	Class	Registration number	Registration date	Expiry date
	Japan	41	4667124	25 April 2003	25 April 2023
	Japan	41	5516181	17 August 2012	17 August 2022
	Japan	41	5516180	17 August 2012	17 August 2022
	Japan	41	4770832	14 May 2004	14 May 2024

Trademark	Place of Registration	Class	Registration number	Registration date	Expiry date
	Japan	41	4770833	14 May 2004	14 May 2024
	Japan	41	4770834	14 May 2004	14 May 2024
	Japan	41	4728949	28 November 2003	28 November 2023
	Japan	41	5162142	29 August 2008	29 August 2018
N I R A K U	Japan	41	4686994	27 June 2003	27 June 2023
ニラク	Japan	41	4686993	27 June 2003	27 June 2023

As at the Latest Practicable Date, we had applied for the registration of the following trademarks which we believe are material to our business:

Trademark	Place of registration	Class	Application number	Filing date
<sup>(A)</sup> 	Hong Kong	16, 28, 41, 42	303136743	16 September 2014
<sup>(B)</sup> 				
<sup>(C)</sup> 	Hong Kong	16, 28, 41, 42	303136734	16 September 2014
<sup>(D)</sup> 	Hong Kong	16, 28, 35, 41, 42	303136725	16 September 2014
	Hong Kong	16, 28, 35, 41, 42	303198259	12 November 2014

(b) **Domain names**

As at the Latest Practicable Date, we were the registered owner of two domain names, [www.ngch.co.jp](http://www.ngch.co.jp) and [www.niraku.co.jp](http://www.niraku.co.jp), which we believe are material to our business.

## D. FURTHER INFORMATION ABOUT OUR DIRECTORS, CHIEF EXECUTIVE OFFICER AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of interests

#### (a) *Interests of the Directors and the Chief Executive Officer in our share capital and our associated corporations following the Global Offering*

The table below sets out the interests of our Directors and Chief Executive Officer immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) in the Shares, underlying Shares or debentures of us or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed:

Name of Director(s)/ Chief Executive Officer	Capacity/nature of interest	Relevant company (including associated corporation)	Number and class of Shares immediately after the Global Offering	Approximate percentage of shareholding in the total issued share capital of the relevant company after the Global Offering
Our Chairman . . . . .	Beneficial interest <sup>(1)</sup>	Our Company	224,480,460 common Shares	18.8%

*Notes:*

- (1) The interests held by our Chairman shown above include the 212,980,460 Shares held in his own name for his own benefit and the 11,500,000 Shares held by Densho Limited\* (有限会社伝承), a company collectively wholly-owned by his children, the voting rights of which are exercisable by our Chairman.
- (2) Shareholding percentages are approximate and subject to rounding.

#### (b) *Interests of the substantial shareholders in the Shares which are discloseable under Division 2 and 3 of Part XV of the SFO*

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), so far as our Directors are aware, the following persons (not being a Director or a Chief Executive Officer of ours) will have an interests or short position in the Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be



interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/nature of interest	Relevant company (including associated corporation)	Number and class of Shares immediately after the Global Offering	Approximate percentage of shareholding in the total issued share capital of the relevant company after the Global Offering
Tatsuo TANIGUCHI (谷口龍雄) . . .	Beneficial interest; custodian <sup>(1)</sup>	Our Company	223,790,000 common Shares	18.5%
Masataka TANIGUCHI (谷口晶貴) . . . . .	Beneficial interest; custodian <sup>(2)</sup>	Our Company	151,570,000 common Shares	12.7%
Yoshihiro TEI (鄭義弘)# (also known as JEONG Jungwung) .	Beneficial interest; custodian <sup>(3)</sup>	Our Company	98,440,000 common Shares	8.3%
SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行) . . .	Trustee <sup>(1), (2), (3)</sup>	Our Company	229,137,500 common Shares	19.1%
ESOA . . . . .	Custodian <sup>(4)</sup>	Our Company	61,870,000 common Shares	5.2%
Seiai HATOYAMA (鳩山正愛) . . .	Interest of a spouse <sup>(5)</sup>	Our Company	224,480,460 common Shares	18.8%
Hideko TANIGUCHI (谷口秀子) . .	Interest of a spouse <sup>(6)</sup>	Our Company	223,790,000 common Shares	18.5%
Eiko TANIGUCHI (谷口栄子) . . . .	Interest of a spouse <sup>(7)</sup>	Our Company	151,570,000 common Shares	12.7%
Keie TEI (鄭慶恵) . . . . .	Interest of a spouse <sup>(8)</sup>	Our Company	98,440,000 common Shares	8.3%
Hidenori TANIGUCHI (谷口秀憲) .	Interest of a child <sup>(9)</sup>	Our Company	224,480,460 common Shares	18.8%
Yuryon TANIGUCHI (谷口有鈴) . .	Interest of a child <sup>(9)</sup>	Our Company	224,480,460 common Shares	18.8%
Hirohide TANIGUCHI (谷口博秀) .	Interest of a child <sup>(9)</sup>	Our Company	224,480,460 common Shares	18.8%
Yuri TANIGUCHI (谷口裕里) . . . .	Interest of a child <sup>(9)</sup>	Our Company	224,480,460 common Shares	18.8%
Masahide TEI (鄭將英)# (also known as JEONG Jangyeong)	Interest of a child; beneficial interest <sup>(10)</sup>	Our Company	98,440,000 common Shares	8.3%
Akinori TEI (鄭敬憲)# (also known as JEONG Kyeongheon) . . . . .	Interest of a child; beneficial interest <sup>(10)</sup>	Our Company	98,440,000 common Shares	8.3%

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*Notes:*

- (1) The interests held by Mr. Tatsuo TANIGUCHI (谷口龍雄) shown above include: (i) 161,690,000 Shares held in his own name for his own benefit, (ii) 19,320,000 Shares held by Jukki Limited\* (有限会社十起), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Tatsuo TANIGUCHI (谷口龍雄); (iii) 1,380,000 Shares held by KAWASHIMA Co., Ltd.\* (株式会社KAWASHIMA), a company collectively wholly-owned by our Chairman, Mr. Tatsuo TANIGUCHI (谷口龍雄) and Mr. Masataka TANIGUCHI (谷口晶貴), the voting rights of which are exercisable by Mr. Tatsuo TANIGUCHI (谷口龍雄); and (iv) 41,400,000 Shares held by the TT Family Trust for the benefit of his children, namely Ms. Yoshika TEI (鄭淑佳)<sup>#</sup> (also known as Ms. JEONG Sukka), Mr. Kousei TEI (鄭光誠)<sup>#</sup> (also known as Mr. CHONG Gangsong) and Mr. Kiyokazu TANIGUCHI (谷口清和). SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行) is the trustee and assignee\* (受託者) of the TT Family Trust and Mr. Tatsuo TANIGUCHI (谷口龍雄) is entitled to exercise the voting rights attached to the Shares under the TT Family Trust. The interests under the TT Family Trust are equally distributed among the three beneficiaries under the TT Family Trust.
- (2) The interests held by Mr. Masataka TANIGUCHI (谷口晶貴) shown above include: (i) 11,442,500 Shares held in his own name for his own benefit; (ii) 5,750,000 Shares held by Hokuyo Kanko Limited\* (有限会社北陽觀光), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Masataka TANIGUCHI (谷口晶貴); and (iii) 134,377,500 Shares held by the MT Family Trust for the benefit of his children, namely Mr. Tatsunari TANIGUCHI (谷口辰成)<sup>#</sup> (also known as Mr. CHONG Jinsong), Mr. Takanari TANIGUCHI (谷口詰成)<sup>#</sup> (also known as Mr. JEONG Cheolseong) and Mr. Toshinari TANIGUCHI (谷口才成)<sup>#</sup> (also known as Mr. CHUNG Jaeseong). SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行) is the trustee and assignee\* (受託者) of the MT Family Trust and Mr. Masataka TANIGUCHI (谷口晶貴) is entitled to exercise the voting rights attached to the Shares under the MT Family Trust. The interests under the MT Family Trust are equally distributed among the three beneficiaries under the MT Family Trust.
- (3) The interests held by Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) shown above include: (i) 33,580,000 Shares held in his own name for his own benefit; (ii) 11,500,000 Shares held by Daiki Limited\* (有限会社大喜), a company collectively wholly-owned by his children, the voting rights of which are exercisable by Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung); and (iii) 53,360,000 Shares held by the YT Family Trust for the benefit of his children, namely Mr. Akinori TEI (鄭敬憲)<sup>#</sup> (also known as JEONG Kyeongheon) and Mr. Masahide TEI (鄭將英)<sup>#</sup> (also known as JEONG Jangyeong). SMBC Trust Bank Ltd.\* (株式会社SMBC信託銀行) is the trustee and assignee\* (受託者) of the YT Family Trust and Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) is entitled to exercise the voting rights attached to the Shares under the YT Family Trust. The interests under the YT Family Trust are equally distributed among the two beneficiaries under the YT Family Trust.
- (4) The ESOA is the registered owner of 61,870,000 Shares held for the benefit of the members of the ESOA, who are current employees of our Group. The voting rights attached to the Shares held by the ESOA are exercisable by its president\* (理事長), currently Mr. Takashi ENDO (遠藤孝), who is not a core connected person of our Company.
- (5) Mrs. Seiai HATOYAMA (鳩山正愛) is the spouse of our Chairman and is therefore deemed to be interested in the Shares that our Chairman is interested in under the SFO.
- (6) Mrs. Hideko TANIGUCHI (谷口秀子) is the spouse of Mr. Tatsuo TANIGUCHI (谷口龍雄) and is therefore deemed to be interested in the Shares that Mr. Tatsuo TANIGUCHI (谷口龍雄) is interested in under the SFO.
- (7) Mrs. Eiko TANIGUCHI (谷口栄子) is the spouse of Mr. Masataka TANIGUCHI (谷口晶貴) and is therefore deemed to be interested in the Shares that Mr. Masataka TANIGUCHI (谷口晶貴) is interested in under the SFO.
- (8) Mrs. Keie TEI (鄭慶恵) is the spouse of Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) and is therefore deemed to be interested in the Shares that Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as JEONG Jungwung) is interested in under the SFO.

- (9) Mr. Hidenori TANIGUCHI (谷口秀憲), Ms. Yuryon TANIGUCHI (谷口有鈴), Mr. Hirohide TANIGUCHI (谷口博秀) and Ms. Yuri TANIGUCHI (谷口裕里) are the children of our Chairman under the age of 18 and are therefore deemed to be interested in the Shares that our Chairman is interested in under the SFO.
- (10) Ms. Masahide TEI (鄭將英)<sup>#</sup> (also known as JEONG Jangyeong) and Mr. Akinori TEI (鄭敬憲)<sup>#</sup> (also known as JEONG Kyeongheon) are the children of Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as Mr. JEONG Jungwung) under the age of 18 and are therefore deemed to be interested in the Shares that Mr. Yoshihiro TEI (鄭義弘)<sup>#</sup> (also known as Mr. JEONG Jungwung) is interested in under the SFO. In addition, they are the beneficiaries under the YT Family Trust.
- (11) Shareholding percentages are approximate and subject to rounding.

Save as disclosed in this Prospectus, our Directors are not aware of any persons who will, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in the general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

(c) ***Negative statement regarding interests in securities***

None of our Directors or our Chief Executive Officer will immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) have any disclosure interests (as referred to in (a) above), other than as disclosed at (a) above.

Without taking into account Shares which may be taken up under the Global Offering, none of our Directors know of any persons who will immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) have a notifiable interest (for the purposes of the SFO) in the Shares or, having such a notifiable interest, have any short positions (within the meaning of the SFO) in the Shares, other than as disclosed at (b) above.

## **2. Particulars of Directors' service agreement and letters of appointment**

Our Executive Director has signed a service agreement with us for a term commencing on 16 March 2015 and expiring at the close of the annual general meeting relating to the most recent financial year ending within one year (subject to termination in certain circumstances as stipulated in the service agreement).

The annual remuneration payable to our Executive Director by our Group (excluding discretionary bonus) is ¥30,480,000.

Each of our Independent Non-executive Directors has signed a letter of appointment with us for a term commencing on 16 March 2015 and expiring at the close of the annual general meeting relating to the most recent financial year ending within one year (subject to termination in certain circumstances as stipulated in the relevant letters of appointment).

The annual remuneration payable to each of our Independent Non-executive Directors under the relevant letters of appointment is as follows:

Director	Remuneration (per annum)
Hiroaki MORITA 森田弘昭 . . . . .	¥3,600,000
Norio NAKAYAMA 中山宣男 . . . . .	¥3,600,000
Masaharu TOGO 東郷正春 . . . . .	¥3,600,000
Hiroaki KUMAMOTO 熊本浩明 . . . . .	¥4,800,000

### 3. Agency fees or commission

Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share or loan capital of us or any of our subsidiaries.

### 4. Related party transactions

For details of our related party transactions, see Note 35 to the Accountant's Report set out in Appendix I to this Prospectus.

## E. DISCLAIMERS

Save as disclosed herein:

- (a) None of our Directors or our Chief Executive Officer has any interest or short position in the shares, underlying shares or debentures of us or any of our associated corporation (within the meaning of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO of which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;
- (b) None of our Directors or experts referred to in “— F. Other Information — 7. Qualifications of Experts” in this Appendix has any direct or indirect interest in the promotion of us, or in any assets which have within the two years immediately preceding the date of this Prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any members of our Group;
- (c) None of our Directors or experts referred to in “— F. Other Information — 7. Qualifications of Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of our Group taken as a whole;

- (d) None of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) Taking into account Shares which may be taken up under the Global Offering or upon exercise of the Over-allotment Option, none of our Directors knows of any person (not being a Director or Chief Executive Officer of us) who will, immediately following the completion of the Global Offering, have an interest of short position in the shares or underlying shares of us which would fall to be disclosed to us under the provisions of Division of 2 and 3 of Part XV of the SFO or to be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of our Group;
- (f) None of the experts referred to in “— F. Other Information — 7. Qualifications of Experts” in this Appendix has any shareholding in any member of our member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (g) So far as is known to the Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or shareholders who are interested in more than 5% of our share capital have any interests in the give largest customers or the five largest suppliers of our Group.

## **F. OTHER INFORMATION**

### **1. Litigation**

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

### **2. Preliminary expenses and the Sole Sponsor’s fees**

Our preliminary expenses were approximately ¥457,699 and were paid by us.

The Sole Sponsor will be paid by our Company an aggregate fee of US\$800,000 to act as the sponsor to the Listing.

### **3. Promoter**

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this Prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the Global Offering and the related transactions described in this Prospectus.

#### 4. Application for Listing

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares: (i) in issue; (ii) to be issued pursuant to the Global Offering; and (iii) to be issued upon exercise of the Over-allotment Option. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

#### 5. No material adverse change

Our Directors confirm that save as disclosed in this Prospectus, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 30 September 2014 (the date of the latest audited consolidated financial statements of our Group) and up to the date of this Prospectus.

#### 6. Agency fees and commissions received

The Underwriters will receive an underwriting commission as referred to in “Underwriting — Underwriting Arrangements and Expenses — Commissions and Expenses”.

#### 7. Qualifications of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinion and/or advice in this Prospectus are as follows:

Name	Qualifications
Shenyin Wanguo Capital (H.K.) Limited . .	Licensed under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) regulated activities as defined under the SFO
Soga Law Office . . . . .	Qualified lawyers in Japan
PricewaterhouseCoopers . . . . .	Certified public accountants
PricewaterhouseCoopers Limited . . . . .	Independent anti-money laundering consultant
Zeirishi-Hojin PricewaterhouseCoopers* (税理士法人プライスウォーターハウス コーパース) . . . . .	Qualified tax accountants in Japan
Entertainment Business Institute* (株式会 社エンタテインメントビジネス総合研 究所) . . . . .	Research and analysis services provider
DTZ Debenham Tie Leung Limited . . . . .	Chartered surveyors and valuers

**8. Consents**

Each of the experts listed in the preceding paragraph has given and has not withdrawn their respective written consents to the issue of this Prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

**9. Binding effect**

This Prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**10. Taxation of holders of our Shares**

See “Key Japan Legal and Regulatory Matters — E. Taxation” for details.

Our Controlling Shareholders (as indemnifiers) have entered into the Deed of Indemnity in favour of our Company (for itself and as trustee for each of our subsidiaries) on 16 March 2015, pursuant to which they have, amongst others, agreed and undertaken, jointly and severally, with our Company to indemnify our Company (on its own behalf and as a trustee for our subsidiaries) and at all times keep the same fully indemnified on demand from and against any tax liability falling on any member of our Group resulting from, or by reference to any income, profit or gains, earned, accrued or received and/or assets acquired on or before the date on which the Global Offering becomes unconditional.

**11. Miscellaneous**

Save as otherwise disclosed in this Prospectus:

- (i) within the two years immediately preceding the date of this Prospectus, no share or loan capital of our Company or of any of our principal operating subsidiaries has been issued agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) within the two years immediately preceding the date of this Prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our principal subsidiaries;
- (iii) within the two years preceding the date of this Prospectus, no commission has been paid or is payable (except commissions to underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in our Company;

- (iv) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (v) no share or loan capital of our Company or any of our consolidated subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (vi) none of the parties (save in connection with the Underwriting Agreement) listed in “— F. Other Information — 7. Qualification of experts” in this Appendix:
  - (a) is interested legally or beneficially in any securities of any member of our Group;  
or
  - (b) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (vii) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (viii) there is no arrangement under which future dividends are waived or agreed to be waived;
- (ix) our Directors confirm that our Company has no outstanding convertible debt securities or debentures; and
- (x) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this Prospectus.

## **12. Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

## **13. Bilingual Prospectus**

The English language and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

## **14. Independence of the Sole Sponsor**

Shenyin Wanguo Capital (H.K.) Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.



**15. Disclosure required under the Japan Companies Act**

Under the Japan Companies Act, we are required to inform you, as potential investors:

- (A) that in respect of both the Global Offering and the Over-allotment Option: (i) the “*issuance period*”\* (払込期間) (as referred to under the Japan Companies Act) shall be 8 April 2015 (being the currently expected Listing Date) to 26 April 2015 (being the last day on which the Over-allotment Option may be exercised); (ii) the “*minimum amount of payment*”\* (払込金額) (as referred to under the Japan Companies Act) shall be HK\$0.01 per Share; (iii) 50% (subject to rounding as prescribed under the Japan Companies Act) of the “*minimum amount of payment*”\* (払込金額) (as referred to under the Japan Companies Act) (being HK\$0.01 per Share) received under the Global Offering and the Over-allotment Option shall be capitalised and allocated to our core capital\* (資本金) and capital reserve\* (資本準備金) (as referred to under the Japan Companies Act); and (iv) the “*payment handling financial institution*”\* (払込取扱金融機関) (as referred to under the Japan Companies Act and to which the “*minimum amount of payment*”\* (払込金額) of the Global Offering shall be delivered before the Offer Shares are issued or, in case of the Over-allotment Option, the issue date of the Over-allotment Shares) shall be the Hong Kong branch of Mizuho Bank, Ltd.\* (株式会社みずほ銀行香港支店). In addition, the number of Offer Shares initially available under the Global Offering (being 300,000,000 Shares) and the number of Over-allotment Shares (being 45,000,000 Shares) shall, respectively, constitute the “*number of shares to be issued*”\* (募集株式の数) (as referred to under the Japan Companies Act) for the Global Offering and the Over-allotment Option;
- (B) that our current share registrar / transfer agent in Japan is Tokyo Securities Transfer Agent Co., Ltd.\* (東京証券代行株式会社), the address of whom is 2-6-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan. We will discontinue our relationship with our current Japan share registrar / transfer agent prior to the Listing and our Hong Kong Share Registrar will become our sole share registrar / transfer agent, maintaining our sole Share Register in Hong Kong. See “Key Japan Legal and Regulatory Matters – A. Bearer Shares – Voluntary measures adopted by our Company – 2. Single Share Register maintained in Hong Kong” for further details; and
- (C) about the existence of: (i) one class-A share\* (A種株式) that was previously issued by us and cancelled by our Board on 9 December 2014 as referred to in paragraph (b) under “– A. Further Information about our Company – 2. Changes in the Capital Structure of our Company” in this section above; and (ii) our class-B shares/common Shares\* (B種株式/普通株式), which as of the date of this Prospectus comprises 895,850,460 Shares and would be converted to common Shares\* (普通株式) upon Listing. For further information about our current capital structure, you may refer to our current articles of incorporation\* (定款) (which will be replaced by our Articles upon Listing), a copy of which is available for inspection as mentioned in “Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection – Documents Available for Inspection”. Our only class-A share has been cancelled and we are bound by our Articles not to issue any class of shares other than our common Shares\* (普通株式) after the Listing.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this Prospectus and delivered to the Registrar of Companies in Hong Kong for registration were: (i) copies of the **WHITE, YELLOW** and **GREEN** Application Forms; (ii) copies of each of the material contracts referred to in paragraph (n) of this Appendix; and (iii) the consent letters referred to in paragraph (p) of this Appendix.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Deacons, 5/F Alexandra House, 18 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

- (a) our Articles and a certified English translation of the same;
- (b) our current articles of incorporation\* (定款) (which will be replaced by our Articles upon Listing) together with a certified English translation of the same;
- (c) an English translation of the Japan Companies Act;
- (d) the accountant's report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this Prospectus;
- (e) the report from PricewaterhouseCoopers on our unaudited pro forma financial information, the text of which is set out in Appendix II to this Prospectus;
- (f) the audited financial statements as have been prepared for the companies comprising our Group for the three financial years ended March 31, 2012, 2013 and 2014 and the six months ended 30 September 2014;
- (g) the letter of advice issued by Soga Law Office, our Japan Legal Adviser, summarising certain aspects of our Articles, the Japan Companies Act and certain Japan laws, regulations and legislations, as referred to in Appendix V to this Prospectus;
- (h) the Japan legal opinion prepared by Soga Law Office, our Japan Legal Adviser, in respect of our general matters, our property interests in Japan and our Articles;
- (i) the Japan legal opinion prepared by Soga Law Office, our Japan Legal Adviser, in respect of our operations under the Three Party System in Japan;
- (j) the commissioned report prepared by EBI on, among others, the Japanese economy and the pachinko industry in Japan, as referred to in "Industry Overview";

- (k) the letter, summary of valuations and valuation certificates prepared by DTZ Debenham Tie Leung Limited, our independent Property Valuer, the text of which is set out in Appendix III to this Prospectus;
- (l) the independent assurance report dated 24 March 2015 issued by Pricewaterhousecoopers Limited, our AML Consultant, in respect of the design and operation of certain anti-money laundering controls of our Group which have been put in place for the period from 1 October 2014 to 28 February 2015 to achieve selected internal control objectives that have been adopted by our Directors, the text of which is set out in Appendix IV to this Prospectus;
- (m) the Japanese tax opinion letter dated 24 March 2015 issued by Zeirishi-Hojin PricewaterhouseCoopers\* (税理士法人プライスウォーターハウスコーパース), our Tax Adviser, in respect of (1) our potential investor's exposure to (i) Japanese withholding tax on dividend payments from our Company; (ii) Japanese capital gains tax from dealing in the Shares of our Company; (iii) Japanese stamp duty on issue of share certificates; (iv) Japanese inheritance tax and gift tax from the acquisition of the Shares of our Company as legatee, donee and heir; (2) our Company's exposure to Japanese withholding tax on dividend payments from our subsidiaries; and (3) the Japanese corporate income tax rates applicable to our Group during the Track Record Period, as referred to in "Key Japan Legal and Regulatory Matters – E. Taxation";
- (n) the material contracts referred to in "Appendix VI – Statutory and General Information – C. Further information about our business – 1. Summary of material contracts";
- (o) the service agreement and letters of appointment referred to in "Appendix VI – Statutory and General Information – D. Further information about our Directors, Chief Executive Officer and Substantial Shareholders – 2. Particulars of Directors' service agreement and letters of appointment";
- (p) the consent letters referred to in "Appendix VI – Statutory and General Information – F. Other information – 8. Consents"; and
- (q) this Prospectus.

