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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2017

ANNUAL RESULTS HIGHLIGHTS

- Gross pay-ins were ¥143,130 million (or HK$9,625 million#), recording a decrease of 9.5% as compared with the year ended 31 March 2016;
- Revenue was ¥29,180 million (or HK$1,962 million#), recording a decrease of 5.9% as compared with the year ended 31 March 2016;
- Profit before income tax was ¥902 million (or HK$61 million#), recording an increase of 42.5% as compared with the year ended 31 March 2016;
- Profit for the year attributable to shareholders of the Company was ¥492 million (or HK$33 million#), recording an increase of 171.8% as compared with the year ended 31 March 2016;
- The Group operates 55 halls as at the date of this announcement (55 halls as at 31 March 2016);
- Basic earnings per share of the Company were ¥0.41 (or HK$0.028#) (2016: ¥0.15); and
- The Board has resolved to declare a final dividend of ¥0.03 (or HK$0.002) per ordinary share (interim: ¥0.09).

Translated into Hong Kong dollar at the rate of ¥14.87 to HK$1.00, the exchange rate prevailing on 31 March 2017 (i.e. the last business day in March 2017).

Note: The above % increases and decreases refer to the changes in respect of the Japanese Yen amounts but not the translated amounts in Hong Kong dollar.

* *For identification purpose only*

The board (the "Board") of directors (the "Directors") of NIRAKU GC HOLDINGS, INC.* (the "Company" or "NIRAKU") would like to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2017 together with the comparative figures for the year ended 31 March 2016 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Note	2017 ¥ million	2016 ¥ million
Revenue	4	**29,180**	30,995
Other income	5	**801**	770
Other losses, net	5	**(47)**	(272)
Hall operating expenses	6	**(24,110)**	(25,207)
Administrative and other operating expenses	6	**(4,391)**	(4,815)
Operating profit		**1,433**	1,471
Finance income		**55**	54
Finance costs		**(586)**	(892)
Finance costs, net	7	**(531)**	(838)
Profit before income tax		**902**	633
Income tax expense	8	**(410)**	(452)
Profit for the year attributable to shareholders of the Company		**492**	181
Other comprehensive gain/(loss)			
Change in value of financial assets through other comprehensive income		**138**	(241)
Total comprehensive income/(loss) for the year attributable to shareholders of the Company		**630**	(60)
Earnings per share for profit attributable to shareholders of the Company			
— Basic and diluted (expressed in Japanese Yen per share)	9	**0.41**	0.15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	**2017**	2016
		¥ million	*¥ million*
ASSETS			
Non-current assets			
Property, plant and equipment		**26,406**	28,470
Investment properties		**678**	697
Intangible assets		**182**	210
Prepayments, deposits and other receivables		**3,866**	4,198
Financial assets at fair value through profit or loss		**104**	106
Financial assets at fair value through other comprehensive income		**1,210**	1,013
Deferred income tax assets		**1,656**	1,781
Long-term bank deposits		**35**	185
		34,137	36,660
Current assets			
Inventories		**20**	413
Trade receivables	*11*	**88**	64
Prepayments, deposits and other receivables		**1,457**	1,456
Financial assets at fair value through profit or loss		**–**	100
Bank deposits with maturity over 3 months		**252**	297
Cash and cash equivalents		**13,404**	12,310
Current income tax recoverable		**55**	957
		15,276	15,597
Total assets		**49,413**	52,257

	Note	**2017**	2016
		¥ million	*¥ million*
EQUITY			
Equity attributable to shareholders of the Company			
Share capital		**3,000**	3,000
Reserves		**24,499**	24,097
Total equity		**27,499**	27,097
LIABILITIES			
Non-current liabilities			
Borrowings	*13*	**8,656**	9,732
Obligations under finance leases	*14*	**4,048**	5,070
Provisions and other payables		**1,989**	2,057
Derivative financial instruments		**11**	14
		14,704	16,873
Current liabilities			
Trade payables	*12*	**123**	132
Borrowings	*13*	**2,394**	3,295
Obligations under finance leases	*14*	**1,160**	1,530
Accruals, provisions and other payables		**3,532**	3,326
Derivative financial instruments		**1**	2
Current income tax liabilities		**–**	2
		7,210	8,287
Total liabilities		**21,914**	25,160
Total equity and liabilities		**49,413**	52,257

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

株式会社ニラク・ジー・シー・ホールディングス NIRAKU GC HOLDINGS, INC.* was incorporated in Japan under the Japan Companies Act with limited liability on 10 January 2013. The address of its registered office is 1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan.

The Company is an investment holding company. The Company and its subsidiaries comprising the Group (together, the "Group") are principally engaged in pachinko and pachislot hall operations and hotel operations in Japan. The Group is also engaged in restaurant operations and other business in Japan.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 8 April 2015.

These consolidated financial statements are presented in millions of Japanese Yen ("¥"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

3 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") issued by the IASB and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) which are carried at fair values.

The preparation of the consolidated financial statements 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.

(a) New and amended standards adopted by the Group

The following amendments to standards are mandatory for accounting periods beginning on or after 1 April 2016:

IFRSs (Amendment)	Annual improvements 2012 to 2014 cycle
IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception
IFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
IFRS 14	Regulatory deferral accounts
IAS 1	Disclosure initiative
IAS 16 and IAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation
IAS 16 and IAS 41 (Amendment)	Agriculture: Bearer plants
IAS 27 (Amendment)	Equity method in separate financial statements

The adoption of these amendments did not have any impact on the current period or any prior period.

(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 2017 or later periods, but have not been early adopted by the Group.

		Effective for accounting year beginning on or after
IFRS 12 (Amendment)	Income taxes	1 January 2017
IFRS 7 (Amendment)	Statement of cash flows	1 January 2017
IFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 10 and IFRS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2017	2016
	¥ million	*¥ million*
Revenue		
Gross pay-ins	**143,130**	158,095
Less: gross pay-outs	**(114,734)**	(127,900)
Revenue from pachinko and pachislot hall business	**28,396**	30,195
Vending machine income	**564**	588
Revenue from hotel operations	**130**	164
Revenue from restaurant operations	**90**	48
	29,180	30,995

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used for making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a service perspective and assess the performance of the operating segments based on a measure of adjusted profit before tax before unallocated corporate expenses for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as this consolidated financial statements.

Management has identified two reportable segments based on the types of services, namely (i) pachinko and pachislot hall operations and (ii) others, representing hotel and restaurant operations.

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, trade receivables, prepayments, deposits and other receivables, bank deposits and cash and bank balances. They exclude deferred income tax assets, and assets used for corporate functions including financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Capital expenditure comprises additions to property, plant and equipment, investment properties and intangible assets. Unallocated corporate expenses and income tax expenses are not included in segment results.

The segment information provided to the executive directors for the years ended 31 March 2017 and 2016 are as follows:

	Year ended 31 March 2017		
	Pachinko and pachislot hall operations *¥ million*	Others *¥ million*	Total *¥ million*
Segment revenue from external customers	28,960	220	29,180
Segment results	1,576	(118)	1,458
Corporate expenses			(556)
Profit before income tax			902
Income tax expense			(410)
Profit for the year			492
Other segment items			
Depreciation and amortisation expenses	(2,392)	(28)	(2,420)
Finance income	55	–	55
Finance costs	(586)	–	(586)
Capital expenditures	524	134	658

	Year ended 31 March 2016		
	Pachinko and pachislot hall operations	Others	Total
	¥ million	*¥ million*	*¥ million*
Segment revenue from external customers	30,783	212	30,995
Segment results	1,703	(121)	1,582
Corporate expenses			(949)
Profit before income tax			633
Income tax expense			(452)
Profit for the year			181
Other segment items			
Depreciation and amortisation expenses	(2,360)	(91)	(2,451)
Finance income	54	–	54
Finance costs	(892)	–	(892)
Capital expenditures	4,197	9	4,206

The segment assets as at 31 March 2017 and 2016 are as follows:

	Pachinko and pachislot hall operations	**Others**	**Total**
	¥ million	***¥ million***	***¥ million***
As at 31 March 2017			
Segment assets	**40,437**	**636**	**41,073**
Unallocated assets			**6,684**
Deferred income tax assets			**1,656**
Total assets			**49,413**
As at 31 March 2016			
Segment assets	44,166	532	44,698
Unallocated assets			5,778
Deferred income tax assets			1,781
Total assets			52,257

No single external customer contributed more than 10% revenue to the Group's revenue for the years ended 31 March 2017 and 2016.

The Group is domiciled in Japan and all non-current assets of the Group as at 31 March 2017 and 2016 are located in Japan.

5 OTHER INCOME AND OTHER LOSSES, NET

	2017	2016
	¥ million	*¥ million*
Other income		
Rental income	**148**	152
Income from expired IC and membership cards	**33**	35
Dividend income	**61**	64
Compensation and subsidies *(Note)*	**13**	308
Income from scrap sales of used pachinko and pachislot machines	**500**	192
Others	**46**	19
	801	770
Other losses, net		
(Loss)/gain on fair value for financial assets at fair value through profit or loss	**(2)**	6
Gain/(loss) on fair value for derivative financial instruments	**4**	(16)
Gain on disposal of derivative financial instruments	**–**	6
Loss on disposal of property, plant and equipment	**(64)**	(57)
Net exchange gain/(loss)	**15**	(211)
	(47)	(272)

Note: Compensation received for the year ended 31 March 2016 was mainly from the government for closure of a hall due to city planning.

6 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2017	2016
	¥ million	*¥ million*
Auditors' remuneration		
— Audit fees	**62**	60
— Other services	**34**	24
Employee benefits expenses		
— Hall operations	**5,110**	5,081
— Administrative and others	**1,576**	1,556
Operating lease rental expense in respect of land and buildings	**2,816**	2,841
Depreciation of property, plant and equipment	**2,368**	2,387
Depreciation of investment properties	**19**	27
Write off of other receivables	**17**	–
Amortisation of intangible assets	**33**	37
Reinstatement expenses	**25**	26
Recruitment expenses	**78**	218
Travelling and transportation	**134**	169
Other taxes and duties	**385**	481
Repairs and maintenance	**183**	240
Utilities expenses	**971**	1,133
Consumables and cleaning	**1,741**	1,735
Outsourcing service expenses	**1,008**	1,065
G-Prize procurement expenses to wholesalers	**778**	802
Pachinko and pachislot machines expenses *(Note i)*	**8,836**	9,619
Advertising expenses	**1,264**	1,450
Service fee	**35**	33
Impairment loss on property, plant and equipment	**271**	317
Legal and professional fees	**66**	35
Loss on termination of opening of a hall *(Note ii)*	**72**	–
Professional expenses incurred in connection with the Company's listing	**–**	84
Others	**619**	602
	28,501	30,022

Notes:

(i) Pachinko and pachislot machines are expensed off in the consolidated statement of comprehensive income upon installation. The expected useful lives of these machines are less than one year.

(ii) During the year ended 31 March 2017, the Group has decided to abandon the plan of opening a new hall. As a result, a loss of ¥72 million was charged to the consolidated statement of comprehensive income, including forfeiture of rental deposit of ¥39 million, write off of construction in progress of ¥14 million and penalty charge for early termination of the rental contract of ¥19 million.

7 FINANCE COSTS, NET

	2017 ¥ million	2016 ¥ million
Finance income		
Bank interest income	**3**	2
Other interest income	**52**	52
	55	54
Finance costs		
Bank borrowings	**(213)**	(523)
Bond interest expense	**–**	(2)
Obligations under finance leases	**(280)**	(296)
Provision for unwinding discount	**(93)**	(71)
	(586)	(892)
Finance costs, net	**(531)**	(838)

8 INCOME TAX EXPENSE

	2017 ¥ million	2016 ¥ million
Current tax		
— Japan corporate income tax	**344**	302
Deferred income tax	**66**	150
	410	452

Japan corporate income tax has been calculated on the estimated assessable profit for the years ended 31 March 2017 and 2016 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 years ended 31 March 2017 and 2016 as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 March 2017 and 2016.

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 March 2017 and 2016.

	2017	2016
Profit attributable to shareholders of the Company (¥million)	**492**	181
Weighted average number of ordinary shares in issue (thousands)	**1,195,850**	895,850
Weighted average number of new shares in issue (thousands)	**–**	294,262
Weighted average number of shares for the purpose of calculating basic earnings per share (thousands)	**1,195,850**	1,190,112
Basic and diluted earnings per share (¥)	**0.41**	0.15

No diluted earnings per share is presented as there was no potential dilutive shares during the years ended 31 March 2017 and 2016. Diluted earnings per share is equal to the basic earnings per share.

10 DIVIDENDS

During the year ended 31 March 2017, the Company paid final dividend of ¥120 million (¥0.10 per ordinary share) and interim dividend of ¥108 million (¥0.09 per ordinary share) to their shareholders in respect of the years ended 31 March 2016 and 31 March 2017, respectively.

The board of directors of the Company proposes the payment of a final dividend of ¥0.03 per ordinary share totalling ¥36 million in respect of the year ended 31 March 2017. These consolidated financial statements do not reflect this dividend payable.

11 TRADE RECEIVABLES

	2017 ***¥ million***	2016 *¥ million*
Trade receivables	**88**	64
Less: provision for impairment of trade receivables	**–**	–
	88	64

Trade receivables represent income receivable from vending machines. The credit terms granted by the Group generally ranged from 0 to 30 days.

As at 31 March 2017 and 2016, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	2017	2016
	¥ million	*¥ million*
Less than 30 days	**88**	64

As at 31 March 2017 and 2016, no trade receivables was past due or impaired.

The maximum exposure to credit risk at the reporting date is the carrying value of the receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of trade receivables approximate their fair values as at 31 March 2017 and 2016; and are denominated in Japanese Yen.

12 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 31 March 2017 and 2016 were as follows:

	2017	2016
	¥ million	*¥ million*
Less than 30 days	**42**	49
31 – 90 days	**81**	83
	123	132

The carrying amounts of trade payables approximate their fair values as at 31 March 2017 and 2016; and are denominated in Japanese Yen.

13 BORROWINGS

	2017	2016
	¥ million	*¥ million*
Non-current portion		
Bank loans	**1,922**	1,945
Syndicated loans	**6,734**	7,787
	8,656	9,732
Current portion		
Bank loans	**939**	1,682
Syndicated loans	**1,455**	1,336
Bonds	**–**	277
	2,394	3,295
Total borrowings	**11,050**	13,027

As at 31 March 2017 and 2016, the Group's borrowings were repayable as follows:

	2017	2016
	¥ million	*¥ million*
Within 1 year	**2,394**	3,295
Between 1 and 2 years	**1,944**	2,178
Between 2 and 5 years	**4,560**	4,933
Over 5 years	**2,152**	2,621
	11,050	13,027

The average effective interest rates (per annum) at the end of each reporting period were set out as follows:

	2017	2016
Bank loans	**1.8%**	2.3%
Syndicated loans	**1.1%**	1.1%
Bonds	**–**	2.3%

As at 31 March 2017, the borrowings under sales and leaseback arrangements with a third party lessor amounted to ¥1,472 million (2016: ¥2,275 million). These sales and leaseback arrangements included sales of certain leasehold improvements and pachislot machines at an aggregate consideration of ¥2,801 million and lease-back to the Group for a total lease payment of ¥2,979 million covering the periods ranged between 24 months to 84 months. During the lease period, the Group cannot transfer or pledge to any party the relevant leasehold improvements and pachislot machines. For leasehold improvement, 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 each lease term at no cost.

At the end of each reporting period, the total borrowings are pledged by certain assets and their carrying values are shown as below:

	2017	2016
	¥ million	*¥ million*
Property, plant and equipment	**8,195**	8,445
Investment properties	**678**	697
Deposits and other receivables	**585**	560
	9,458	9,702

The undrawn borrowing facilities of the Group at each reporting period are as follows:

	2017	2016
	¥ million	*¥ million*
Floating rate		
— Expiring over 1 year	**2,000**	1,400

The carrying amounts of borrowings of the Group approximate their fair values as at 31 March 2017 and 2016.

During the years ended 31 March 2017 and 2016, the principal amounts of bonds issued by the Group carried at fixed interest rate per annum are as follows:

Issue date	Principal amount *¥ million*	Interest rate	Due date
28 August 2012 *(Note i)*	160	0.70%	26 August 2022
30 November 2012 *(Note i)*	100	0.60%	30 November 2022
28 August 2014 *(Note ii)*	280	0.31%	26 August 2016
19 September 2014 *(Note i)*	100	1.00%	19 September 2019

Notes:

i. As at 31 March 2016, these bonds had been fully repaid by the Group.

ii. As at 31 March 2017, this bond had been fully repaid by the Group.

14 OBLIGATIONS UNDER FINANCE LEASES

	2017 ***¥ million***	2016 *¥ million*
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	**1,364**	1,784
Later than 1 year and no later than 2 years	**999**	1,336
Later than 2 year and no later than 5 years	**1,709**	2,271
Later than 5 years	**2,264**	2,579
	6,336	7,970
Future finance charges on finance leases	**(1,128)**	(1,370)
Present values of finance lease liabilities	**5,208**	6,600

The present values of finance lease liabilities are as follows:

	2017 ***¥ million***	2016 *¥ million*
No later than 1 year	**1,160**	1,530
Later than 1 year and no later than 2 years	**835**	1,135
Later than 2 year and no later than 5 years	**1,371**	1,867
Later than 5 years	**1,842**	2,068
Total obligations under finance leases	**5,208**	6,600
Less: Amount included in current liabilities	**(1,160)**	(1,530)
Non-current obligations under finance leases	**4,048**	5,070

Assets arranged under finance leases represent buildings for pachinko and pachislot halls and pachinko and pachislot machines. The average lease term ranges from 1 to 20 years with effective interest rate range from 3.22% to 4.42% per annum as at 31 March 2017 (2016: 3.22% to 4.42% per annum). No arrangements have been entered into for contingent rental payments during the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The financial year ended 31 March 2017 is another challenging year for the Group, which pachinko operators saw little signs of improvement in the pachinko and pachislot industry. The prominent factors of the market downturn being the continuous decline in the number of pachinko players as a wide range of entertainment alternatives available in the market. The downturn further worsened with the effect of new standard which confined pachinko operators to replace all high-gambling machines that were seen to be the traditional source of revenue for pachinko operators.

For the year ended 31 March 2017, the Group's gross pay-in from pachinko and pachislot business amounted to ¥143,130 million, comprising revenue from suburban halls of ¥136,122 million and urban halls of ¥7,008 million, representing a decrease of 9.4% and 9.8%, respectively, as compared to last year.

	For the year ended 31 March	
	2017	2016
	¥ million	*¥ million*
Gross pay-ins		
— Suburban halls	**136,122**	150,326
— Urban halls	**7,008**	7,769
	143,130	158,095
Gross pay-outs		
— Suburban halls	**(109,169)**	(121,600)
— Urban halls	**(5,565)**	(6,300)
	(114,734)	(127,900)
Revenue from pachinko and pachislot business		
— Suburban halls	**26,953**	28,726
— Urban halls	**1,443**	1,469
	28,396	30,195

STRATEGIES

Grappling with the decline in pachinko and pachislot revenue, the Group has been persistent in expanding its market share through revamping of existing halls, including interior renovation offering a more pleasant playing environment; as well as launch of online prize redemption system allowing a wider variety of general prizes for customers. Opening new halls is undoubtedly a means in driving additional income to the Group. During the year, a mega store equipped with 1,280 pachinko and pachislot machines was opened in Fukushima City. This mega store marked as the Group's twenty-first store in Fukushima prefecture, generating additional income and establishing a stable customer base. For the year ended 31 March 2017, gross pay-ins and revenue generated from this new hall amounted to ¥8,214 million and ¥1,105 million, respectively.

The Group carried out frequent review on machine mix, ensuring types of machines offered met the customer preferences. Seeing the increasing popularity in pachislot machines, the Group has adjusted the proportion of pachinko machines to pachislot machines from 66% to 34% as at 31 March 2016 to 64% to 36% as at 31 March 2017. Further, the Group continued to optimise the pay-out ratio, a key factor which has direct impact on customer visits, in order to drive higher traffic. These measures were successful in increasing revenue margin and maintaining stable machine utilisation rate for the year ended 31 March 2017.

	For the year ended 31 March	
	2017	2016
Revenue margin		
— Suburban halls	**19.8%**	19.1%
— Urban halls	**20.6%**	18.9%
Machine utilisation rate		
— Pachinko	**23.2%**	24.2%
— Pachislot	**23.2%**	23.2%
Number of machines		
— Pachinko	**17,913**	18,537
— Pachislot	**10,213**	9,602
	28,126	28,139

To maximise the returns to shareholders of the Company (the "Shareholders"), the Group is determined to take every step to increase its profit. Apart from opening new halls as mentioned, the Group frequently reviews the business performance of each existing hall. Necessary steps will be taken for halls identified as underperformed. During the current year, the Group, after careful consideration of its future profitability, decided to close down a loss-making urban hall in Maebashi area. The Group considered that its closure would allow better resource allocation within the Group. Further, the Group reckoned that cost control is an effective means to improve the net profit margin. With the tightened cost control implemented during the year ended 31 March 2017, administrative and other operating expenses decreased by ¥424 million as compared to last year. In addition, the Group centralised its financing from individual subsidiaries level to the Company, allowing higher bargaining power with financial institutions which leads to higher cost savings on borrowings. Following this new arrangement, interest expense was drastically reduced by ¥306 million for the year ended 31 March 2017 as compared to last year.

	As at 31 March	
	2017	2016
Number of halls		
— Suburban halls	**49**	48
— Urban halls	**6**	7
	55	55

	For the year ended 31 March	
	2017	2016
Net profit margin	**1.7%**	0.6%
Earnings per share (in ¥)	**0.41**	0.15

RECENT DEVELOPMENT

Despite the severe market conditions, the management of the Group is confident in maintaining its returns from the core business; and at the same time explores new opportunities to broaden the revenue source, especially in the hospitality industry. On 26 September 2016, the second Spanish restaurant under the brand "LIZARRAN" was opened in Nishi-Shinjuku, a popular shopping and entertainment area among the younger generation in Tokyo. This new outlet has brought in ¥15 million revenue to the Group. The management is planning to open its third restaurant in 2018.

CHALLENGES AHEAD AND FUTURE PLANS

With the advocation of new standards which promote reduction of gambling element of pachinko machines, operators in pachinko industry have implemented a voluntary replacement of high gambling property machines by the end of December 2016. Future standards governing both pachinko and pachislot machines are expected to move toward low gambling property machines. This trend will enable customers to play at a reduced cost; and while machine development by machine manufacturers progresses, the range of customers is expected to be broadened. Nevertheless, since the low gambling machines will generate lesser revenue (gross pay-ins) than the high gambling property machines, the pachinko business in the coming years continues to be challenging.

In December 2016, the "Act on the Promotion of the Development of Integrated Resort Areas" (the "IR Promotion Act" or the "Act") was approved by the Japanese Diet. This Act obliges the government to take action within a year after its enactment with the objective of submitting the necessary laws for establishing integrated resort areas, including casinos. This law effectively permits the establishment of casinos in Japan, which has triggered a major discussion of "gambling addiction problem". For a long time, the pachinko industry has been actively considering this "gambling addiction problem" as a "problem caused by excessive obsession". However, following the passage of this Act, there are strong calls for the pachinko industry to take initiatives and necessary actions to address these social issues, including issues arising from other gambling activities currently exists.

To tackle with the adverse market situation, the Group intends to develop a gaming environment that meets the needs of diversified gaming fans by lowering the number of high playing cost machines in the halls. In addition, the Group will further strengthen the existing halls. In particular, improve services by increasing service flexibility to meet regional needs. To do this, the Group will continue to work on enhancing general prizes varieties, one of the major factors affecting customers' selection of halls, through expansion of online prize system which enables customers to select general prizes from online shopping sites.

The Group will promote its "active local engine" marketing campaign which was introduced earlier this year. Through this campaign, halls will become nexus points for various entertainment activities in the region, thus deepening the connection with local community, enhance the market presence of the Group and eventually increase customer base, their recognition and loyalty.

Listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2015 allows the Group to gain a foothold into Asian market. The continuous economic growth in the Asian countries has increased the demand for leisure and entertainment activities. The Group will look for every opportunity for business expansion in these countries. The management is convinced that its profound experience will prove to be useful in meeting the needs in these regions.

In addition to secure the profits, we endeavour to create mechanisms and establish an organisation that uphold our corporate value, not only in the medium- to long-term, but for the future as well.

FINANCIAL REVIEW

Gross pay-ins

Gross pay-ins recorded a decrease of ¥14,965 million, or 9.5%, from ¥158,095 million in 2016 to ¥143,130 million in 2017 as a result of the decrease in customer visits which led to lower utilisation of pachinko and pachislot machines.

Gross pay-outs

Gross pay-outs, being the aggregate costs of G-prizes and general prizes exchanged by customers, dropped by ¥13,166 million, or 10.3%, from ¥127,900 million in 2016 to ¥114,734 million in 2017, which generally mirrored the decline in gross pay-ins.

Revenue and revenue margin from pachinko and pachislot business

Revenue from pachinko and pachislot business declined from ¥30,195 million in 2016 to ¥28,396 million in 2017. The decrease in revenue by ¥1,799 million, or 6.0%, was primarily due to the shrinkage of customer base which was the general market trend in the pachinko and pachislot industry.

The revenue margin remained constant with a moderate improvement of 0.7% from 19.1% in 2016 to 19.8% in 2017. Such increase was mainly attributable to the decrease in pay-out ratio which helped to improve the revenue from pachinko and pachislot hall operations.

Other revenue

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

Vending machine income amounted to ¥564 million in 2017. The slight decrease of ¥24 million as compared to ¥588 million in 2016 was resulted from the drop in customer visits.

Income from hotel operations decreased from ¥164 million in 2016 to ¥130 million in 2017 as a result of 2 months' business suspension for hotel renovation work. As a result, the average occupancy rate dropped from 83.0% in 2016 to 70.3% in 2017 accordingly.

Following the opening of the second Spanish restaurant in Nishi-Shinjuku in September 2016, revenue from restaurant operation under the brand "LIZARRAN" increased by ¥42 million from ¥48 million in 2016 to ¥90 million in 2017.

Hall operating expenses

Hall operating expenses decreased by ¥1,097 million, or 4.4%, from ¥25,207 million in 2016 to ¥24,110 million in 2017. Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and rental expenses, amounting to ¥8,836 million, ¥5,110 million and ¥2,697 million, respectively, for the year ended 31 March 2017 (31 March 2016: ¥9,619 million, ¥5,081 million and ¥2,703 million, respectively).

The drop in hall operating expenses was mainly due to the reduction in pachinko and pachislot machine expenses as less pachinko and pachislot machines were replaced as compared to last year.

Administrative and other operating expenses

Administrative and other operating expenses decreased by ¥424 million, or 8.8%, from ¥4,815 million in 2016 to ¥4,391 million in 2017, primarily due to the decrease in provision for impairment loss by ¥46 million as compared to last year; and implementation of various cost savings measures during the current year.

Finance costs, net

Finance costs, net recorded a notable decrease of ¥307 million, or 36.6%, from ¥838 million in 2016 to ¥531 million in 2017. The plunge was attributable to the decrease in total loan balance and centralisation of borrowings from individual subsidiaries level to the Company, allowing higher cost savings on borrowings.

Profit before income tax, profit attributable to shareholders of the Company, basic earnings per share and dividend

Profit before income tax increased by 42.5%, from ¥633 million in 2016 to ¥902 million in 2017, with net profit margin increased from 0.6% in 2016 to 1.7% in 2017.

Profit attributable to shareholders of the Company increased from ¥181 million in 2016 to ¥492 million in 2017, representing a 171.8% increase over last year.

Basic earnings per share was ¥0.41 (2016: ¥0.15). The Board has declared a final dividend of ¥0.03 per share for the year ended 31 March 2017 (2016: ¥0.10 per share) on 19 May 2017.

CAPITAL STRUCTURE

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

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

The table below sets forth the information regarding the cash and cash equivalents, bank deposits, bank borrowings, obligations under finance leases, working capital, total equity and gearing ratio of the Group as at 31 March 2017 and 2016, and operating cash flows before movements in working capital of the Group for the years ended 31 March 2017 and 2016, respectively:

	As at 31 March	
	2017	2016
	¥ million	*¥ million*
Cash and cash equivalents	**13,404**	12,310
Bank deposits	**287**	482
	13,691	12,792
Bank loans	**2,860**	3,627
Syndicated loans	**8,190**	9,123
Bonds	**–**	277
Obligations under finance leases	**5,208**	6,600
	16,258	19,627
Working capital	**8,066**	7,310
Total equity	**27,499**	27,097
Gearing ratio	**59.1%**	72.4%

	For the year ended 31 March	
	2017	2016
	¥ million	*¥ million*
Operating cash flows before movements in working capital	**4,156**	4,242

Net current assets of the Group totalled ¥8,066 million as at 31 March 2017 (31 March 2016: ¥7,310 million), and current ratio was 2.12 as at 31 March 2017 (31 March 2016: 1.88). As at 31 March 2017, there were cash and cash equivalents of ¥13,404 million (31 March 2016: ¥12,310 million), in which ¥12,354 million was denominated in Japanese Yen, ¥345 million was denominated in United States dollar and ¥705 million was denominated in Hong Kong dollar. The Group had total borrowings of ¥16,258 million as at 31 March 2017 (31 March 2016: ¥19,627 million). Current portion of borrowings and current portion of obligations under finance leases amounted to ¥3,554 million as at 31 March 2017 (31 March 2016: ¥4,825 million).

The Group's bank borrowings during the current period comprised bank loans, syndicated loans and bonds. As at 31 March 2017, all bonds were repaid and the total bank borrowings amounted to ¥11,050 million (31 March 2016: ¥13,027 million). As at 31 March 2017, the average effective interest rates on bank borrowings ranged from 1.1% to 1.8% (31 March 2016: 1.1% to 2.3%) per annum. Approximately 6.4% of bank borrowings as at 31 March 2017 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS

As at 31 March 2017, the Group had one floating to fixed interest rate swap contract with a bank in Japan (i.e. the Group pays fixed interest rates and receive interests at floating rate). This interest rate swap contract was entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the year ended 31 March 2017, the gain on fair value for interest rate swap contracts amounted to ¥4 million.

The Group did not carry out any foreign currency investment and its debts were all denominated in Japanese Yen. As the Group's principal business activities are carried out in Japan, the Group does not have any material foreign exchange exposure.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and obligations under finance leases, divided by total equity, was 59.1% as at 31 March 2017 (31 March 2016: 72.4%). The decrease of 13.3% as compared with that as at 31 March 2016 was mainly due to the decrease in total borrowings of ¥3,369 million and the increase in total equity of ¥402 million.

CAPITAL EXPENDITURE

Capital expenditure mainly comprises expenditure for (i) the purchase of property, plant and equipment mainly used for construction of buildings, and (ii) the purchase of equipment and tools for the expansion and maintenance of our pachinko and pachislot hall operations. The table below shows a breakdown of the capital expenditure for the indicated periods:

	As at 31 March	
	2017	2016
	¥ million	*¥ million*
Property, plant and equipment	**653**	4,105
Investment properties	**–**	43
Others	**5**	58
	658	4,206

CHARGES ON ASSETS

As at 31 March 2017 and 2016, the carrying values of charged assets were as below:

	2017	2016
	¥ million	*¥ million*
Property, plant and equipment	**8,195**	8,445
Investment properties	**678**	697
Deposits and other receivables	**585**	560
	9,458	9,702

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2017 and 2016.

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

During the year ended 31 March 2017, other than the event mentioned below, the Group did not conduct any significant investments, material acquisitions or disposals. Save for those disclosed in this announcement, the Group had no plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

On 19 May 2016, the Company entered into the sales and purchase agreement (the "Agreement") with Coastal Heritage Limited (the "Seller") to purchase 66.7% of equity interest in Nha Trang Holdings Limited, a company engaged in Vietnamese and pinot duck restaurants operation, at an aggregate consideration of HK$100 million. During the year ended 31 March 2017, the Group paid a deposit of HK$10 million (equivalent to approximately ¥149 million) to the Seller. Pursuant to the announcement dated 15 June 2016, the Group terminated the Agreement with the Seller. As at 31 March 2017, the Group engaged an external lawyer and is undergoing legal process of claiming the full amount of the deposit.

REMUNERATION POLICY AND PENSION SCHEME

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including the directors). The remuneration policy and remuneration packages of the executive Director and members of the senior management of the Group are reviewed by the Remuneration Committee.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the initial public offering in April 2015 amounted to approximately HK$339 million, of which HK$322 million was utilised for the year ended 31 March 2017. The remaining net proceeds of HK$17 million will be used for the originally planned purposes as set out in the Company's prospectus dated 24 March 2015.

FINAL DIVIDEND

The Board has declared a final dividend of ¥0.03 per share for the year ended 31 March 2017 (31 March 2016: ¥0.10 per share) on 19 May 2017, the final dividend will be payable on 7 July 2017 to the Shareholders whose names appear on the register of members of the Company at close of business on 6 June 2017.

The exchange rate for the conversion of Japanese Yen to Hong Kong dollar for the dividend distributed to the Shareholders in the currency other than Japanese Yen is based on the average currency rates prevailing five trading days immediately prior to 19 May 2017 (being 12 May 2017 and 15 to 18 May 2017).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended 31 March 2017, the Company has adopted and complied with all the applicable principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), with the exception for code provision A.2.1, which requires the roles of chairman and chief executive to be separated and should be performed by different individuals.

Code provision A.2.1

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct during the year ended 31 March 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the year ended 31 March 2017 and up to the date of this announcement. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31 March 2017 and up to this announcement.

AUDIT COMMITTEE

The audit committee of the Company had reviewed, together with the management and external auditor, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 March 2017.

REVIEW OF THE PRELIMINARY RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 March 2017 as set out in this preliminary results announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary results announcement.

ANNUAL GENERAL MEETING AND RECORD DATE

The annual general meeting of the Company ("2017 AGM") will be held on 29 June 2017 at 1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan. Notice of the 2017 AGM will be published and issued to Shareholders in due course. The right to attend and vote at the 2017 AGM will be granted to the Shareholders whose names appear on the Company's share register on Wednesday, 21 June 2017.

In order for those Shareholders whose names have not been registered on the Company's share register to be eligible to attend and vote at the 2017 AGM, all properly completed, duly stamped and executed transfer documents accompanied by the relevant share certificates should be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 p.m. (Hong Kong time) on Wednesday, 21 June 2017.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ngch.co.jp), and the annual report of the Company for the year ended 31 March 2017 containing all the information required by the Listing Rules will be dispatched to the Shareholders and will be published on the respective websites of the Stock Exchange and the Company in due course.

On behalf of the Board
NIRAKU GC HOLDINGS, INC.*
株式会社ニラク・ジー・シー・ホールディングス
Chairman, Executive Director and Chief Executive Officer
Hisanori TANIGUCHI (also known as JEONG Seonggi)

Fukushima, Japan, 19 May 2017

As at the date of this announcement, the executive Director is Hisanori TANIGUCHI (also known as JEONG Seonggi); the non-executive Director is Hiroshi BANNAI; and the independent non-executive Directors are Hiroaki MORITA, Norio NAKAYAMA, Masaharu TOGO, Michio MINAKATA and Yoshihiro KOIZUMI.

* *for identification purpose only*