株式会社ニラク·ジー·シー·ホールディングス

NIRAKU GC HOLDINGS, INC.*

(Incorporated in Japan with limited liability)

(Stock Code: 1245)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

RESULTS HIGHLIGHTS

- Gross pay-ins were ¥70,236 million (or HK$4,727 million#), recording a decrease of 5.2% as compared with the same period last year;
- Revenue was ¥13,108 million (or HK$882 million#), recording a decrease of 11.7% as compared with the same period last year;
- Loss before income tax was ¥104 million (or HK$7 million#), recording a decrease of ¥680 million (or HK$46 million) as compared with the same period last year;
- Loss for the period attributable to shareholders of the Company was ¥221 million (or HK$15 million#), recording a decrease of ¥584 million (or HK$39 million) as compared with the same period last year;
- Basic loss per share of the Company was ¥0.18 (or HK$0.012#) (2016: basic earnings per share was ¥0.30);
- The Board has resolved not to declare an interim dividend for the six months ended 30 September 2017 (Six months ended 30 September 2016: ¥0.09 per share); and
- The Group operated 54 halls as at 30 September 2017.

Translated into Hong Kong dollar at the rate of ¥14.86 to HK$1.00, the exchange rate prevailing on 29 September 2017 (i.e. the last business day in September 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 unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2017 together with the comparative figures for the six months ended 30 September 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
		2017	2016
	Note	***¥ million***	*¥ million*
		(Unaudited)	(Unaudited)
Revenue	*4*	**13,108**	14,847
Other income	*5*	**323**	421
Other losses, net	*5*	**(1)**	(116)
Hall operating expenses	*6*	**(11,478)**	(12,000)
Administrative and other operating expenses	*6*	**(1,824)**	(2,280)
Operating profit		**128**	872
Finance income		**25**	27
Finance costs		**(257)**	(323)
Finance costs, net	*7*	**(232)**	(296)
(Loss)/profit before income tax		**(104)**	576
Income tax expense	*8*	**(117)**	(213)
(Loss)/profit for the period attributable to shareholders of the Company		**(221)**	363
(Loss)/earnings per share for (loss)/profit attributable to shareholders of the Company — Basic and diluted (expressed in Japanese Yen per share)	*9*	**(0.18)**	0.30
Other comprehensive loss			
Change in value of financial assets through other comprehensive income		**(88)**	(37)
Total comprehensive (loss)/income for the period attributable to the shareholders of the Company		**(309)**	326

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 September 2017** **¥ *million*** **(Unaudited)**	31 March 2017 *¥ million* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**26,053**	26,406
Investment properties	*11*	**671**	678
Intangible assets	*11*	**166**	182
Prepayments, deposits and other receivables		**3,780**	3,866
Financial assets at fair value through profit or loss		**52**	104
Financial assets at fair value through other comprehensive income		**1,084**	1,210
Deferred income tax assets		**1,728**	1,656
Long-term bank deposits		**41**	35
		33,575	34,137
Current assets			
Inventories		**15**	20
Trade receivables	*12*	**54**	88
Prepayments, deposits and other receivables		**1,220**	1,457
Current income tax recoverable		**50**	55
Bank deposits with maturity over 3 months		**232**	252
Cash and cash equivalents		**14,152**	13,404
		15,723	15,276
Total assets		**49,298**	49,413

	Note	**30 September 2017** **¥ million** **(Unaudited)**	31 March 2017 *¥ million* (Audited)
EQUITY			
Equity attributable to shareholders of the Company			
Share capital		**3,000**	3,000
Reserves		**24,154**	24,499
		27,154	27,499
Non-controlling interest		**5**	–
Total equity		**27,159**	27,499
LIABILITIES			
Non-current liabilities			
Borrowings	*14*	**8,440**	8,656
Obligations under finance leases	*15*	**3,603**	4,048
Provisions and other payables		**2,018**	1,989
Derivative financial instruments		**10**	11
		14,071	14,704
Current liabilities			
Trade payables	*13*	**251**	123
Borrowings	*14*	**3,096**	2,394
Obligations under finance leases	*15*	**1,039**	1,160
Accruals, provisions and other payables		**3,681**	3,532
Derivative financial instruments		**1**	1
		8,068	7,210
Total liabilities		**22,139**	21,914
Total equity and liabilities		**49,298**	49,413

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

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

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

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 September 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2017, as described in those annual financial statements.

The following new standards and amendments have been issued and effective for annual periods beginning on 1 April 2017 with no impact on the Group's results of operations and financial positions:

Amendment to IAS 12	Income tax
Amendment to IAS 7	Statement of cash flows
Amendment to IFRS 12	Disclosure of interest in other entities

There are no other standards or amendments that are effective for the first time for the six months ended 30 September 2017 that could be expected to have a material impact on this Group.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Six months ended 30 September	
	2017	2016
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Revenue		
Gross pay-ins	**70,236**	74,057
Less: gross pay-outs	**(57,560)**	(59,617)
Revenue from pachinko and pachislot hall business	**12,676**	14,440
Vending machine income	**272**	295
Revenue from hotel operation	**83**	82
Revenue from restaurant operations	**77**	30
	13,108	14,847

(b) Segment information

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

Management has identified 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, long-term bank deposits, bank deposits with maturity over 3 months and cash and cash equivalents. They exclude deferred income tax assets and assets used for corporate functions including financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

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

The segment information provided to the executive directors for the six months ended 30 September 2017 and 2016 are as follows:

	Six months ended 30 September 2017		
	Pachinko and pachislot hall operations	**Others**	**Total**
	¥ million	***¥ million***	***¥ million***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
Segment revenue from external customers	**12,948**	**160**	**13,108**
Segment results	**242**	**(62)**	**180**
Corporate expenses			**(284)**
Loss before income tax			**(104)**
Income tax expense			**(117)**
Loss for the period			**(221)**
Other segment items			
Depreciation and amortisation expenses	**(1,124)**	**(19)**	**(1,143)**
Finance income	**25**	**–**	**25**
Finance costs	**(257)**	**–**	**(257)**
Capital expenditures	**693**	**74**	**767**

	Six months ended 30 September 2016		
	Pachinko and pachislot hall operations	Others	Total
	¥ million	*¥ million*	*¥ million*
	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue from external customers	14,735	112	14,847
Segment results	1,004	(38)	966
Corporate expenses			(390)
Profit before income tax			576
Income tax expense			(213)
Profit for the period			363
Other segment items			
Depreciation and amortisation expenses	(1,229)	(11)	(1,240)
Finance income	27	–	27
Finance costs	(323)	–	(323)
Capital expenditures	229	46	275

The segment assets as at 30 September 2017 and 31 March 2017 are as follows:

	Pachinko and pachislot hall operations ¥ million	Others ¥ million	Total ¥ million
As at 30 September 2017			
Segment assets (Unaudited)	**39,005**	**750**	**39,755**
Unallocated assets			**7,815**
Deferred income tax assets			**1,728**
Total assets			**49,298**
As at 31 March 2017			
Segment assets (Audited)	40,437	636	41,073
Unallocated assets			6,684
Deferred income tax assets			1,656
Total assets			49,413

No single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 30 September 2017 and 2016.

The Group is domiciled in Japan and all non-current assets of the Group as at 30 September 2017 and 31 March 2017 are located in Japan.

5 OTHER INCOME AND OTHER LOSSES, NET

	Six months ended 30 September	
	2017	2016
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Other income		
Rental income	**74**	71
Income from expired IC and membership cards	**16**	17
Dividend income	**30**	30
Compensation and subsidies	**–**	2
Income from scrap sales of used pachinko and pachislot machines	**191**	280
Others	**12**	21
	323	421
Other losses, net		
Loss on disposal of financial assets at fair value through profit or loss	**(2)**	–
Gain/(loss) on fair value for interest rate swaps	**1**	(8)
Loss on disposal of property, plant and equipment	**(1)**	(13)
Net exchange gain/(loss)	**1**	(95)
	(1)	(116)

6 OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 30 September 2017 ¥ *million* (Unaudited)	2016 ¥ *million* (Unaudited)
Employee benefits expenses		
— Hall operations	**2,588**	2,615
— Administrative and others	**783**	790
Operating lease rental expense in respect of land and buildings	**1,348**	1,444
Depreciation of property, plant and equipment	**1,117**	1,213
Depreciation of investment properties	**10**	10
Amortisation of intangible assets	**16**	17
Provision for impairment loss on property, plant and equipment	**–**	197
Pachinko and pachislot machines expenses *(Note)*	**4,339**	4,245

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

7 FINANCE COSTS, NET

	Six months ended 30 September 2017 ¥ *million* (Unaudited)	2016 ¥ *million* (Unaudited)
Finance income		
Bank interest income	**1**	1
Other interest income	**24**	26
	25	27
Finance costs		
Bank borrowings	**(81)**	(130)
Bond interest expense	**–**	(1)
Obligations under finance leases	**(120)**	(147)
Provision for unwinding discount	**(56)**	(45)
	(257)	(323)
Finance costs, net	**(232)**	(296)

8 INCOME TAX EXPENSE

	Six months ended 30 September	
	2017	2016
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Current tax		
— Japan corporate income tax	**151**	168
Deferred income tax	**(34)**	45
	117	213

Japan corporate income tax has been calculated on the estimated assessable profit for the six months ended 30 September 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 six months ended 30 September 2017 and 2016 as the Group did not generate any assessable profits arising in Hong Kong during both periods.

9 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 September 2017 and 2016.

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to shareholders of the Company (¥ million)	**(221)**	363
Weighted average number of shares for the purpose of calculating basic (loss)/earnings per share (thousands)	**1,195,850**	1,195,850
Basic and diluted (loss)/earnings per share (Japanese Yen)	**(0.18)**	0.30

Diluted (loss)/earnings per share is the same as basic (loss)/earnings per share as there was no potential dilutive shares during the six months ended 30 September 2017 and 2016.

10 DIVIDENDS

During the six months ended 30 September 2017, the Company paid dividend of ¥36 million (¥0.03 per ordinary share) to their shareholders in respect of the year ended 31 March 2017.

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2017 (Six months ended 30 September 2016: ¥0.09 per share).

11 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

During the six months ended 30 September 2017, the Group incurred expenditures of approximately ¥764 million and ¥3 million for property, plant and equipment and investment properties, respectively (Six months ended 30 September 2016: ¥272 million and ¥3 million for property, plant and equipment and intangible assets, respectively).

No impairment loss for property, plant and equipment was incurred by the Group for the six months ended 30 September 2017 (Six months ended 30 September 2016: ¥197 million).

During the six months ended 30 September 2017, the net book amounts of disposed property, plant and equipment amounted to approximately ¥1 million (Six months ended 30 September 2016: ¥13 million). During the six months ended 30 September 2017, there was no disposal of intangible assets and investment properties (Six months ended 30 September 2016: Nil).

12 TRADE RECEIVABLES

	30 September 2017	31 March 2017
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Trade receivables	**54**	88

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

The ageing analysis of the trade receivables, based on invoice date, is as follows:

	30 September 2017	31 March 2017
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Less than 30 days	**54**	88

As at 30 September 2017 and 31 March 2017, no trade receivables were past due or impaired.

13 TRADE PAYABLES

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

	30 September 2017 ¥ *million* (Unaudited)	31 March 2017 ¥ *million* (Audited)
Less than 30 days	**84**	42
31–90 days	**167**	81
	251	123

14 BORROWINGS

	30 September 2017 ¥ *million* (Unaudited)	31 March 2017 ¥ *million* (Audited)
Non-current portion		
Bank loans	**1,786**	1,922
Syndicated loans	**6,654**	6,734
	8,440	8,656
Current portion		
Bank loans	**684**	939
Syndicated loans	**2,412**	1,455
	3,096	2,394
Total borrowings	**11,536**	11,050

15 OBLIGATIONS UNDER FINANCE LEASES

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	**1,222**	1,364
Later than 1 year and no later than 2 years	**889**	999
Later than 2 years and no later than 5 years	**1,433**	1,709
Later than 5 years	**2,121**	2,264
	5,665	6,336
Future finance charges on finance leases	**(1,023)**	(1,128)
Present values of finance lease liabilities	**4,642**	5,208

The present values of finance lease liabilities are as below:

	30 September 2017 ¥ million (Unaudited)	31 March 2017 ¥ million (Audited)
No later than 1 year	**1,039**	1,160
Later than 1 year and no later than 2 years	**741**	835
Later than 2 years and no later than 5 years	**1,121**	1,371
Later than 5 years	**1,741**	1,842
Total obligations under finance leases	**4,642**	5,208
Less: Amount included in current liabilities	**(1,039)**	(1,160)
Non-current obligations under finance leases	**3,603**	4,048

Assets arranged under finance leases represent buildings for pachinko and pachislot halls. The average lease term range from 1 to 20 years. No arrangements have been entered into for contingent rental payments during the reporting periods.

16 SUBSEQUENT EVENT

On 31 October 2017, the Company entered into the sales and purchase agreement with all the existing shareholders of Dream Games Singapore Pte. Ltd ("Dream Games") to purchase 100% of equity interest in Dream Games, a company engaged in the operation of entertainment and amusement facilities in Cambodia and Vietnam. The Company has also agreed to provide fund to Dream Games to repay a shareholder loan. On 20 November 2017, the acquisition is completed at an estimated cash consideration of approximately ¥1.87 billion, which is subject to adjustment within 60 business days from the completion date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Pachinko industry continues to be severe following the effect of new regulations imposed by pachinko industry associations which require pachinko operators to replace pachinko machines of higher gaming element with pachinko machines of lower gaming element, which attracts less hall traffic. For the six months ended 30 September 2017, the Group's gross pay-ins from pachinko and pachislot business amounted to ¥70,236 million, comprising revenue from suburban halls of ¥66,729 million and urban halls of ¥3,507 million, representing a decrease of 5.3% and 2.1%, respectively, as compared to same period in 2016. The Group experienced an adverse financial results with loss attributable to shareholders of ¥221 million for the six months ended 30 September 2017 as compared to profit attributable to shareholders of ¥363 million for the same period last year. The setback is attributable to the replacement of machines of high-gaming element to low-gaming element which in turn generates less revenue than high-gaming element machines; and strategic increase in pay-out ratio to trigger higher customer visits while this would lower the gross profit in the short term.

Key performance indicators for the six months ended 30 September 2017 and 2016 are summarized as below:

	For the six months ended 30 September	
	2017	2016
	¥ million	*¥ million*
Gross pay-ins		
— Suburban halls	**66,729**	70,474
— Urban halls	**3,507**	3,583
Gross pay-outs		
— Suburban halls	**(54,803)**	(56,817)
— Urban halls	**(2,757)**	(2,800)
Revenue from pachinko and pachislot business		
— Suburban halls	**11,926**	13,657
— Urban halls	**750**	783
	12,676	14,440
Revenue margin		
— Suburban halls	**17.9%**	19.4%
— Urban halls	**21.4%**	21.9%

	For the six months ended 30 September	
	2017	2016
Machine utilisation rate		
— Pachinko	**23.6%**	23.9%
— Pachislot	**24.2%**	23.1%
Number of machines		
— Pachinko	**18,293**	18,441
— Pachislot	**10,104**	10,355
	28,397	28,796
Number of halls		
— Suburban halls	**47**	48
— Urban halls	**7**	7
	54	55
Net (loss)/profit margin	**(1.7%)**	2.4%
(Loss)/earnings per share (in ¥)	**(0.18)**	0.30

CHALLENGES FACED AND STRATEGIES TAKEN

Apart from the market downturn and the change in pachinko regulations, the passage of the "Act on the Promotion of the Development of Integrated Resort Areas" (the "IR Promotion Act" or the "Act") also impacts the Group.

With the passage of the "IR Promotion Act" in December 2016, establishment of casinos resorts in Japan becomes legitimate. Despite the Act creates an opportunity for pachinko operators to step in the casino resorts business, it is likely to trigger discussion of the "gambling addiction problem" and strong calls for the pachinko industry to take initiatives and actions to address the social issues, including other gambling activities currently exist.

To tackle with the challenges, the Group intends to steadily promote the development of a gaming environment that meets the needs of diversified gaming fans by lowering the number of high playing cost machines in the halls; and further strengthen existing halls to improve service flexibility that meet the regional needs. In particular, the Group has enhanced general prizes varieties, which is 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. Other measures include revamping existing halls to offer more pleasant playing environment to visitors; promoting "active local engine" marketing campaign to deepen the connection with local community, increase customer base, their recognition and loyalty; and continuing optimising the pay-out ratio to drive in higher traffic. The Group frequently reviews the performance of existing halls and necessary steps will be taken for halls identified as underperformed. During the current period, the Group, after careful consideration of its future profitability, decided to close down a fully impaired loss-making suburban hall in Gunma area. The Group considered that its closure would allow better resource allocation within the Group. To maintain stable operating cash flow without being influenced by macro-economy, the Group will strengthen the revenue driving capability of existing halls, streamline the operation, and improve cost efficiency. The Group's priority is to build a system capable of responding promptly to changes in the environment and efficient decision making, enhancing authority delegation, and constructing an effective and efficient organisational structure.

RECENT DEVELOPMENT AND FUTURE PLAN

Following the opening of the second Spanish restaurant in Nishi-Shinjuku in September 2016, on 5 August 2017, the third Spanish restaurant under the brand "LIZARRAN" was opened in Shinbashi, a commercial area and business centre in Tokyo. The new outlet has brought in ¥18 million revenue to the Group.

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, which the Group considered it as a good opportunity for business expansion. Subsequent to the six months ended 30 September 2017, on 31 October 2017, the Company entered into the share sale and purchase agreement with the owners of Dream Games Singapore Pte. Ltd., a company engaged in the operation of entertainment and amusement facilities in Cambodia and Vietnam, to purchase 100% of equity interest of Dream Games Singapore Pte. Ltd. (the "Acquisition"). The Acquisition represents a strategic opportunity for the Group to establish its leading presence in gaming and entertainment industry in Southeast Asia and broaden the types of entertainment provided by the Group; and is in line with the overall business strategies and the expansion plan of the Group to diversify income source. The Acquisition was completed on 20 November 2017 at an estimated cash consideration of ¥1.87 billion which the consideration may subject to further adjustment. The management is convinced that its profound experience in pachinko operation will prove to be useful in managing this new gaming business; and in return, bringing in new revenue and enhancing shareholders' investment return.

Apart from securing business profits, the Group is endeavour to create mechanisms in order to establish an organisation that upholds the 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 ¥3,821 million, or 5.2%, from ¥74,057 million for the six months ended 30 September 2016 to ¥70,236 million for the same period in current year. The decline was due to the change in regulations of pachinko industry associations which require pachinko operators to replace higher gaming element pachinko machines with machines of lower gaming element, which attracted less hall traffic.

Gross pay-outs

Gross pay-outs, being the aggregate cost of G-prizes and general prizes exchanged by customers, dropped by ¥2,057 million, or 3.5%, from ¥59,617 million for the six months ended 30 September 2016 to ¥57,560 million for the same period in 2017. The drop 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 ¥14,440 million for the six months ended 30 September 2016 to ¥12,676 million for the same period in current year. The plunge in revenue by ¥1,764 million was primarily due to shrinkage of customer base as discussed above; and the closure of 1 suburban hall during the current period as discussed under "Business Review".

The revenue margin decreased by 1.5% from 19.5% for the six months ended 30 September 2016 to 18.0% for the same period in current year. The drop in revenue margin was due to increase in pay-out ratio to boost up customer visits which, in the short term, lowered the revenue margin.

Other revenue

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

Vending machine income amounted to ¥272 million for the six months ended 30 September 2017. The slight decrease of ¥23 million as compared to ¥295 million for the same period in 2016 was resulted from the drop in customer visits.

Income from hotel operations amounted to ¥83 million for the six months ended 30 September 2017 with the average occupancy rate of 77.5%. Income derived from hotel operation remained at similar level as that for the six months ended 30 September 2016 of ¥82 million.

Revenue from restaurant under the brand "LIZARRAN" amounted to ¥77 million for the six months ended 30 September 2017. The surge of ¥47 million as compared to the same period in 2016 is mainly attributable to the opening of the second Spanish restaurant in September 2016 which generated addition revenue.

Hall operating expenses

Hall operating expenses decreased by ¥522 million, or 4.4%, from ¥12,000 million for the six months ended 30 September 2016 to ¥11,478 million for the same period in current year. Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and rental expenses, amounting to ¥4,339 million, ¥2,588 million and ¥1,307 million, respectively, for the six months ended 30 September 2017 (30 September 2016: ¥4,245 million, ¥2,615 million and ¥1,382 million, respectively).

The decline in hall operating expenses is mainly resulted from (i) the closure of a suburban hall in September 2016 which its related cost was not incurred in current period; (ii) the renewal of tenancy agreements for several halls at a lower rental charge; and (iii) the carrying out of large scale of repairs and maintenance during the period ended 30 September 2016 but the same was not incurred in current period.

Administrative and other operating expenses

Administrative and other operating expenses dropped by ¥456 million, or 20.0% from ¥2,280 million for the six months ended 30 September 2016 to ¥1,824 million for the same period in 2017. The decrease in expenses is due to impairment loss of ¥197 million which was recognised for the six months ended 30 September 2016 in relation to the loss-making suburban hall which was closed during the current period while no such loss was recognised in current period; and tighten cost control measures imposed enabling a higher cost saving.

Finance costs

Finance costs, net recorded a decrease of ¥64 million, or 21.6%, from ¥296 million for the six months ended 30 September 2016 to ¥232 million for the same period in 2017. The drop is resulted from the decrease in total borrowings for the six months ended 30 September 2017 as compared to the same period in 2016.

(Loss)/profit attributable to shareholders of the Company, basic (loss)/earnings per share and dividend

Loss attributable to shareholders of the Company of ¥221 million was recorded for the six months ended 30 September 2017, as compared to the profit attributable to shareholders of ¥363 million for the six months ended 30 September 2016. The turnaround from profit to loss was mainly due to the drop in gross pay-ins by 5.2%; and increase in pay-out ratio which lower the profit margin in the short term.

Basic loss per share was ¥0.18 (basic earnings per share for the six months ended 30 September 2016: ¥0.30). The Board has resolved not to declare an interim dividend for the six months ended 30 September 2017 (30 September 2016: ¥0.09 per share).

CAPITAL STRUCTURE

The Group principally meets its working capital and other liquidity requirements through a combination of capital contributions, including cash flow from operations and bank borrowings. The Group's daily operation is mainly financed by operating cash flows, and relied 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 30 September 2017 and 31 March 2017, and operating cash flows before movements in working capital of the Group for the six months ended 30 September 2017 and 2016, respectively:

	As at 30 September 2017	As at 31 March 2017
	¥ million	*¥ million*
Cash and cash equivalents	**14,152**	13,404
Bank deposits	**273**	287
	14,425	13,691
Bank loans	**2,470**	2,860
Syndicated loans	**9,066**	8,190
Obligations under finance leases	**4,642**	5,208
	16,178	16,258
Working capital	**7,655**	8,066
Total equity	**27,159**	27,499
Gearing ratio	**59.6%**	59.1%

	For the period ended 30 September	
	2017	2016
	¥ million	*¥ million*
Operating cash flows before movements in working capital	**1,246**	2,299

Net current assets of the Group totalled ¥7,655 million as at 30 September 2017 (31 March 2017: ¥8,066 million), and current ratio was 1.95 as at 30 September 2017 (31 March 2017: 2.12). As at 30 September 2017, there were cash and cash equivalents of ¥14,152 million (31 March 2017: ¥13,404 million), in which ¥13,163 million was denominated in Japanese Yen, ¥342 million was denominated in United States dollar and ¥647 million was denominated in Hong Kong dollar. The Group had total borrowings of ¥16,178 million as at 30 September 2017 (31 March 2017: ¥16,258 million). Current portion of borrowings and current portion of obligations under finance leases amounted to ¥4,135 million as at 30 September 2017 (31 March 2017: ¥3,554 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 30 September 2017, the total bank borrowings amounted to ¥11,536 million (31 March 2017: ¥11,050 million), with average effective interest rates on bank borrowings ranged from 1.06% to 1.72% (31 March 2017: 1.1% to 1.8%) per annum. Approximately 5.8% of bank borrowings as at 30 September 2017 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS

As at 30 September 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 enable the Group to reduce the volatility in the amount of interest being paid. For the six months ended 30 September 2017, the gain on fair value for interest rate swap contracts amounted to ¥1 million.

The Group did not carry out any foreign currency investment and its debts were all denominated in Japanese Yen as at 30 September 2017. Following the Acquisition, as the functional currency of certain subsidiaries are different from the Company, the Group will be exposed to foreign exchange risk arising from such exposure, namely in Singapore Dollar, Vietnamese Dong and Cambodian Riel against Japanese Yen. The management is assessing the significance of the foreign currency exposures faced by the Group and will consider adopting appropriate measures to mitigate the risk, including but not limited to entering into currency hedges.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and obligations under finance leases, divided by total equity, was 59.6% as at 30 September 2017 (31 March 2017: 59.1%). The increase of 0.5% as compared with that of the year ended 31 March 2017 was mainly due to decrease of total equity of ¥340 million, netted with decrease of total borrowings of ¥80 million.

CAPITAL EXPENDITURE

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

	As at 30 September 2017	As at 31 March 2017
	¥ million	*¥ million*
Property, plant and equipment	**764**	653
Others	**3**	5
	767	658

CHARGES ON ASSETS

As at 30 September 2017, the carrying values of charged assets were as below:

	2017
	¥ million
Property, plant and equipment	**8,621**
Investment properties	**671**
Deposits and other receivables	**557**
	9,849

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 September 2017 and 31 March 2017.

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

During the six months ended 30 September 2017, the Group did not conduct any significant investments, material acquisitions or disposals. Save for those disclosed in this interim results 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 interim results announcement.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2017, the Group had 1,487 employees. The remuneration policy of the Group (including those for directors and employees) is determined by the Remuneration Committee under the Board as per the performance, qualifications and competence of the employees.

CORPORATE GOVERNANCE AND OTHER INFORMATION

During the six month ended 30 September 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 leadership figure of our Group who has been primarily involved in the formulation of business strategies and determination of the overall direction of our Group. He has also been chiefly responsible for our Group's operations as he directly supervises our Executive Officers (other than himself) and members of our senior management. Taking into account the continuation of the implementation of our business plans, the directors of the Company (the "Directors") (including our Independent Non-executive Directors) consider our Chairman is the best candidate for both positions and the present arrangements are beneficial to and in the interests of our Company and our Shareholders as a whole.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct during the six months ended 30 September 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the six months ended 30 September 2017. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 30 September 2017.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the Directors since the date of the Company's Annual Report 2017 is set out below:

- Mr. Masaharu TOGO retired as the Independent Non-executive Director with effect from 29 June 2017.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the initial public offering in April 2015 amounted to approximately HK$339 million. As at 30 September 2017, all the net proceeds were utilised according to the originally planned purposes as set out in the Company's prospectus dated 24 March 2015.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2017 (30 September 2016: ¥0.09 per share).

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the interim results for the six months ended 30 September 2017 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2017 has been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ngch.co.jp), and the interim report of the Company for the six months ended 30 September 2017 will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

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

Fukushima, Japan, 24 November 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, Michio MINAKATA and Yoshihiro KOIZUMI.

* *for identification purpose only*