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APPLICATION PROOF OF



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)

(the “Company”)

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No offer or invitation will be made to the public in Hong Kong until after a prospectus of the Company has been registered with the Registrar of Companies in Hong Kong in accordance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decision solely based on the Company’s prospectus registered with the Registrar of Companies in Hong Kong, copies of which will be distributed to the public during the offer period.

* For identification purpose only

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this [REDACTED], 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)

[REDACTED]

Number of [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment)
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment and the [REDACTED])
Maximum [REDACTED] : [REDACTED]
Nominal value : Nil
[REDACTED]

Sole Sponsor



Shenyin Wanguo Capital (H.K.) Limited

[REDACTED]

[REDACTED]

[REDACTED], [REDACTED] and [REDACTED] take no responsibility for the contents of this [REDACTED], make no representation as to the accuracy or completeness of this [REDACTED] 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 [REDACTED].

A copy of this [REDACTED], 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 [REDACTED] in Hong Kong as required by [REDACTED] of [REDACTED]. The [REDACTED] and the [REDACTED] in Hong Kong take no responsibility for the contents of this [REDACTED] or any other document referred to above.

Prior to making an [REDACTED], [REDACTED] should carefully consider all of the information set out in this [REDACTED], including the risk factors set out in “Risk Factors” in this [REDACTED].

The [REDACTED] is expected to be fixed by agreement between the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company on the [REDACTED], which is expected to be on or around [REDACTED] and, in any event, not later than [REDACTED]. The [REDACTED] will not be more than HK\$[REDACTED] and is currently expected to not be less than HK\$[REDACTED]. Applicants for Hong Kong [REDACTED] are required to pay, on application, the maximum [REDACTED] (HK\$[REDACTED]) for each Share together [REDACTED], and [REDACTED], subject to refund if the [REDACTED] as finally determined is lower than the maximum [REDACTED] (HK\$[REDACTED]).

The [REDACTED] (on behalf of the [REDACTED]) may, where considered appropriate, [REDACTED], and with the consent of our Company, reduce the number of [REDACTED] in the [REDACTED] and/or the indicative [REDACTED] range below that stated in this [REDACTED] (which is HK\$[REDACTED] to HK\$[REDACTED] per Share) at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, notices of the reduction in the number of [REDACTED] in the [REDACTED] and/or the indicative [REDACTED] 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.niraku.co.jp) and the [REDACTED] website ([REDACTED]), 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 [REDACTED]. If applications for Hong Kong [REDACTED] have been submitted prior to the day which is the last day for lodging applications under the [REDACTED], then even if the number of Hong Kong [REDACTED] and/or the indicative [REDACTED] range is so reduced, such applications cannot be subsequently withdrawn. If, for any reason, the [REDACTED] is not agreed between the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company by [REDACTED], the [REDACTED] (including the [REDACTED]) will not proceed and will lapse. Further details are set out in “Structure of the [REDACTED]” and “[REDACTED] in this [REDACTED].

The obligations of the Hong Kong [REDACTED] under the Hong Kong [REDACTED] to subscribe or procure subscribers to subscribe for the Hong Kong [REDACTED], are subject to termination with immediate effect by notice (orally or in writing) from the [REDACTED] (on behalf of the Hong Kong [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. Such grounds are set out in “[REDACTED] — [REDACTED] Arrangement and Expenses — [REDACTED] — Grounds for termination” in this [REDACTED]. It is important that you refer to that section for further details.

The [REDACTED] have not been and will not be registered under the [REDACTED] 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 [REDACTED]. The [REDACTED] are being offered and sold outside the United States in offshore transactions in reliance on [REDACTED] under the [REDACTED].

* For identification purpose only

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

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[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this [REDACTED]. 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 [REDACTED], which should be read in its entirety before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED], including those set out in “Risk Factors” starting on page 30. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

We operate pachinko halls 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 approximately 37.7% of the total population in Japan), as at 31 December 2013, according to EBI.

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 54 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.

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.

SUMMARY

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 45 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. Peak operation hours are typically from noon to 5:00 p.m.. These halls generally have around 400 to 700 machines. **Urban halls** are typically located in urban areas (such as Tokyo (東京都)) and within walking distance of a train station. Peak operation hours are typically from 5:00 p.m. to 10:00 p.m.. These halls are generally smaller with around 200 to 300 machines.

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 248.

Our major suppliers consist of: (1) machine suppliers; (2) G-prize wholesalers; and (3) general prize suppliers.

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 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 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 as at 31 December 2013, of which 85.8% were small hall operators with less than 10 halls and we were one of only eight hall operators with over 50 halls. See “Industry Overview” on page 115.

SUMMARY

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 purchase G-prizes from customers for cash and also sell G-prizes to G-prize wholesalers; and (3) **G-prize wholesalers**, who purchase G-prizes from G-prize buyers and also sell G-prizes to pachinko hall operators (such as ourselves). 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 (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 released and maintenance and adjustments of our game machines), operating licenses and general corporate matters, such as corporate governance, taxation and labour. See “Applicable Laws and Regulations” on page 129.

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 251 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.

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

SUMMARY

- 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 [REDACTED] in our information technology system

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 [REDACTED] 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 a [REDACTED]) are strongly encouraged to hold your [REDACTED] in our Company through [REDACTED].**
- (2) **Taxation** - We are required under Japan law to withhold up to 20.42% of taxes on dividend payments. Withholding tax rates may vary according to the circumstances of an [REDACTED], and Hong Kong Shareholders (except for [REDACTED] Beneficial Owners) are entitled to a lower tax rate under the Hong Kong-Japan Tax Treaty. If you choose to invest through [REDACTED], you should note that you will be subject to a higher withholding tax rate.
- (3) **Waivers** - Due to certain Japan law provisions, we are unable to strictly comply with certain requirements under the [REDACTED], such as: (i) distributing our annual report 21 days prior to our AGMs; (ii) requiring our Controlling Shareholders or other Shareholders having an interest in a transaction to abstain from voting in a general meeting; and (iii) issuing a supplemental circular for persons nominated as Directors. We have applied for [and the [REDACTED] has granted] waivers from strict compliance with these [REDACTED] requirements.

SUMMARY

Certain Japan law provisions may significantly affect your rights and obligations as a Shareholder. See “Key Japan Legal and Regulatory Matters” on page 55, “Waivers” on page 93, “Risk Factors — Risks Relating to Key Japan Legal and Regulatory Matters” on page 31 and “Appendix V — Summary of our Articles of Incorporation and Japan Corporation Law” on page V-1.

RISK FACTORS

Our business is subject to a number of risks, including risks relating to our business, the pachinko industry, Japan and the [REDACTED]. You should read the entire “Risk Factors” section starting on page 30 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 you 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 DATA

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
Total revenue (¥, in millions)	30,352	32,751	33,847	16,429	15,572
Gross pay-ins (¥, in millions)	224,968	242,217	236,449	120,674	90,989
Gross payouts (¥, in millions)	195,340	210,298	203,455	104,682	75,798
Revenue margin (%)	13.2	13.2	14.0	13.3	16.7
G-prize mark-up (%)	N/A	N/A	N/A	N/A	4-20
Machine utilisation (%)					
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
Average number of machines per hall					
<i>Suburban</i>					
High playing cost	359	361	378	353	358
Low playing cost	160	168	156	181	181
Total	519	529	534	534	539
<i>Urban</i>					
High playing cost	176	170	165	165	165
Low playing cost	84	94	99	99	99
Total	260	264	264	264	264

For our suburban halls, the average number of pachinko and pachislot machines per hall increased from 519 as at 31 March 2012 to 539 as at 30 September 2014, while machines per hall in our urban halls remained stable at around 264 during the Track Record Period. This overall increase was in line with the market trend. We will continue to monitor and adjust our mix of machines in response to our customer’s demands and competitors’ strategies with an objective to capture the most business from the playing population.

SUMMARY

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)				
Revenue from pachinko and pachislot business					
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)
	29,628	31,919	32,994	15,992	15,191
Vending machine income	724	748	704	362	301
Revenue from pachinko and pachislot hall operations	30,352	32,667	33,698	16,354	15,492
Hotel operations.	—	84	149	75	80
Total revenue	30,352	32,751	33,847	16,429	15,572
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)
Operating profit	7,035	7,142	6,694	3,023	1,896
Profit for the year/period attributable to shareholders of the Company	3,329	3,765	3,698	1,623	937

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) [REDACTED] expenses of ¥[REDACTED]; 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 [REDACTED]. 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).

SUMMARY

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	18,648	17,852	21,800	20,879

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	(3,815)	(10,458)	(3,390)	80	(837)
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	5,631	12,585	6,909	6,909	8,409
Cash and cash equivalents at the end of the year/period, represented by bank balances and cash	<u>12,585</u>	<u>6,909</u>	<u>8,409</u>	<u>7,951</u>	<u>10,002</u>

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

Notes: See “Financial Information — Selected Key Financial Ratios Discussion” for detailed calculations and fluctuation analysis.

* Profit attributable to shareholders has been annualised based on the actual results for the six months ended 30 September 2014 so as to be comparable with annual data.

SUMMARY

[REDACTED] EXPENSES

The estimated total [REDACTED] expenses (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of our indicative [REDACTED] range and that the [REDACTED] is not exercised) in relation to the [REDACTED] are approximately ¥[REDACTED] (approximately HK\$[REDACTED]), of which approximately: (1) ¥[REDACTED] (approximately HK\$[REDACTED]) is directly attributable to the issue of new Shares in the [REDACTED] and to be accounted for as a deduction from equity; and (2) approximately ¥[REDACTED] (approximately HK\$[REDACTED]) is to be charged as administrative expenses to our profit and loss accounts in the period they are incurred. [REDACTED] expenses of approximately ¥[REDACTED] (approximately HK\$[REDACTED]) were charged to our profit and loss account for the six months ended 30 September 2014, and approximately ¥[REDACTED] (approximately HK\$[REDACTED]) are expected to be charged to our profit and loss account as administrative and other operating expenses for the year 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 October 2014 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 whole of the respective unexpired land use term as granted. For its valuation, our Property Valuer used the investment approach. You (as a potential [REDACTED]) 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) in November 2014, we opened one new suburban hall (consisting of 480 pachinko and 336 pachislot machines) in Saitama Prefecture (埼玉県), bringing our total number of operating halls to 54 as at the Latest Practicable Date; (2) in October 2014, we opened our first and flagship “Lizarran” restaurant (with a seating capacity of 82) in Tokyo (東京都); and (3) for the seven months ended 31 October 2014, our utilisation rate of pachinko and pachislot machines were approximately 27.4% and 22.7% respectively and our revenue margin in respect of our pachinko and pachislot business was approximately 16.9%, based on information derived from our operation for the seven months ended 31 October 2014.

SUMMARY

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 [REDACTED] expenses (including those already incurred for the six months ended 30 September) and the retirement payment as described above on pages 7 and 9.

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. 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 [REDACTED].

USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED], we estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] (equivalent to approximately ¥[REDACTED]) from the [REDACTED] (after deducting [REDACTED] fees and other estimated expenses payable by us in relation to the [REDACTED] and assuming the [REDACTED] is not exercised). See “Future Plans and Use of Proceeds” on page 384. Our intended uses are set out below:

[REDACTED]		% of Total [REDACTED]	Intended Use
(HK\$ million)	(¥ million)	(%)	
[REDACTED]	[REDACTED]	[REDACTED]	Open five new suburban halls in Northeast Honshu (本州島東北) over the next two years
[REDACTED]	[REDACTED]	[REDACTED]	Invest in our information technology system
[REDACTED]	[REDACTED]	[REDACTED]	Working capital and other general corporate purposes of our Group

[REDACTED]

SUMMARY

SHAREHOLDER INFORMATION

Immediately upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), the Taniguchi Consortium will together control an aggregate of approximately [REDACTED]% of our total number of issued Shares and are our Controlling Shareholders. Each member of the Taniguchi Consortium is an associate of (under the [REDACTED]), and a person acting in concert with (under the [REDACTED]), 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 [REDACTED]. See “History and Corporate Development — Shareholding Structure” on page 157. We operate independently of our Controlling Shareholders. See “Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders” on page 349.

DIVIDENDS

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. See “Financial Information — Dividend Policy” on page 345 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 [REDACTED] 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 77 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. You should note that historical dividend distributions are not indicative of our future dividend policy.

DEFINITIONS

In this [REDACTED], 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)
	[REDACTED]
“Articles” or “Articles of Incorporation”	the articles of incorporation* (定款) of our Company that were conditionally adopted on [10 March] 2015 and will take effect on the [REDACTED], 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 adopted on [10 March] 2015 in compliance with the [REDACTED]
“associate(s)”	has the meaning ascribed to it under the [REDACTED]
“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

[REDACTED]

DEFINITIONS

[REDACTED]

“Chairman” or “Mr. Taniguchi”	Mr. Hisanori TANIGUCHI (谷口久徳) [#] (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 [REDACTED]
“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)

[REDACTED]

“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 [REDACTED] vehicle for the [REDACTED], 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 [REDACTED]

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed to it under the [REDACTED] and, for the purpose of this [REDACTED], refers to the members of the Taniguchi Consortium
“core connected person(s)”	has the meaning ascribed to it under the [REDACTED]
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the [REDACTED]
“Country Guide”	the Country Guide — Japan published by the [REDACTED] on 20 December 2013 and updated in April 2014
“Deed of Non-Competition”	the deed of non-competition dated [10 March] 2015 executed by our Controlling Shareholders 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 [REDACTED]
“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
	[REDACTED]
“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) (National Public Safety Commission Regulation No. 1 on 11 January 1985)

DEFINITIONS

“ESOA”	Niraku Employee Stock Ownership Association* (ニラク従業員持株会), a partnership* (組合) 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. As at the date of this [REDACTED], ESOA is a shareholder of the Company.
“Excluded Group”	NI and NUSA, which are expected to engage 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

[REDACTED]

“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 its 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

[REDACTED]

“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

DEFINITIONS

[REDACTED]

“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)

[REDACTED]

DEFINITIONS

[REDACTED]

“Issuing Mandate”	the general unconditional mandate given to our Directors 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
“JGAAP”	Japanese Generally Accepted Accounting Principles
“Joint Policy Statement”	the Joint Policy Statement Regarding the [REDACTED] of Overseas Companies jointly issued by the [REDACTED] and the [REDACTED] 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 is expected to invest for a 10% interest in the Las Vegas Property in December 2014 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”	14 December 2014, being the latest practicable date prior to the printing of this application proof document for the purpose of ascertaining certain information contained in this application proof document [REDACTED], being the latest practicable date prior to the printing of this [REDACTED] for the purpose of ascertaining certain information contained in this [REDACTED]
“Leases Act”	the Act on Land and Building Leases* (借地借家法) of Japan (Act No. 90 of 1991)

DEFINITIONS

[REDACTED]

“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). As at the date of this [REDACTED], 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 [REDACTED], the MT Family Trust is the registered Shareholder of [26,875,500] Shares, representing 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 Trusts Arrangements”
“National Police Agency”	the National Police Agency* of Japan (警察庁), 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

DEFINITIONS

“National Public Safety Commission”	the National Public Safety Commission* of Japan (国家公安委員会), 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
“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). As at the date of this [REDACTED], 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). As at the date of this [REDACTED], 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 [REDACTED], 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 [10 March] 2015 in compliance with the [REDACTED]
“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

DEFINITIONS

[REDACTED]

“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)
“Prefectural Public Safety Commission”	the Prefectural Public Safety Commission* of Japan (都道府県公安委員会), an administrative commission under the jurisdiction of each prefectural governor and that, among others, oversees the prefectural police agencies of Japan

DEFINITIONS

[REDACTED]

“Property Valuer” DTZ Debenham Tie Leung Limited, our independent property valuer

[REDACTED]

“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 [10 March] 2015 in compliance with the [REDACTED]

“Repurchase Mandate” the general unconditional mandate given to our Directors 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 [REDACTED], details of which are set out in “History and Corporate Development — Corporate 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

[REDACTED]

“Share(s)” common share(s)* (普通株式) in the share capital of our Company

DEFINITIONS

“Shareholder(s)”	holder(s) of Share(s) and, for the purpose of this [REDACTED], includes our [REDACTED] Beneficial Owners
“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 [REDACTED], will be maintained by our [REDACTED] in Hong Kong
“[REDACTED]”, “[REDACTED]”, “[REDACTED]” or “Sole Sponsor”	Shenyin Wanguo Capital (H.K.) Limited [REDACTED]
“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 [REDACTED]
“South Korea”	The Republic of Korea
“subsidiary(ies)”	has the meaning ascribed to it under the [REDACTED]
“substantial Shareholder(s)”	has the meaning ascribed to it under the [REDACTED]
“Supreme Court (最高裁判所)”	the Supreme Court of Japan* (最高裁判所), being the highest court in Japan

DEFINITIONS

“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)[#] (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 of, and a person acting in concert (as defined under the [REDACTED]) 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 [REDACTED]
“Tax Adviser”	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 Japan tax adviser
“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

DEFINITIONS

“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 Tatsuo TANIGUCHI (谷口龍雄), a Controlling Shareholder, and a nephew or niece of the Chairman. As at the date of this [REDACTED], the TT Family Trust is the registered Shareholder of [8,280,000] Shares, representing 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 [REDACTED]
“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

[REDACTED]

DEFINITIONS

[REDACTED]

“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 [REDACTED], the YT Family Trust is the registered Shareholder of [10,672,000] Shares, representing 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 Trusts Arrangements” for details

“%”

per cent

* *The English titles marked with “*” are unofficial English translation of the Japanese titles of natural persons, legal persons, governmental authorities, institutions, laws, rules, regulations and other entities for which no official English translation exist. 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 [REDACTED] are legal names recorded in their passports or travel documents.*

In this [REDACTED], unless expressly stated or the context requires otherwise:

- all data in this [REDACTED] is as at the date of this [REDACTED];
- any reference to shareholdings in our Company upon or after the completion of the [REDACTED] assume that the [REDACTED] 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.

GLOSSARY OF TECHNICAL TERMS

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

“anti-social force”	an organisation or individual 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 monetary value of the number of balls or tokens required to collect a G-prize and the cost of the G-prize paid by the hall operator
“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 pachinko balls and pachislot tokens
“gross payouts”	aggregate costs of G-prizes and general prizes exchanged by customers, taking into consideration prize mark-ups and the value of any unutilised balls and tokens

GLOSSARY OF TECHNICAL TERMS

“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” or “pre-paid IC card”	a card purchased by pachinko hall customers to store cash value, which can be used to rent pachinko balls or pachislot tokens
“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”	the probability of triggering the jackpot mode
“jackpot size”	number of balls or tokens that will be released when a jackpot is hit 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 and ¥2 per pachinko ball (before consumption tax) and pachislot machines with playing costs of ¥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

GLOSSARY OF TECHNICAL TERMS

“pachislot token(s)” or “token(s)”	small metal token(s) used to play pachislot games
“payout ratio”	total number of balls or tokens released from the machine divided by the total number of balls or tokens played
“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”	in the context of our total revenue, revenue from pachinko and pachislot hall operations, together with revenue from hotel operations in the context of our pachinko and pachislot hall operations, revenue from pachinko and pachislot business, together with vending machine income in the context of our pachinko and pachislot business, gross pay-ins less gross payouts
“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

FORWARD-LOOKING STATEMENTS

This [REDACTED] 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 [REDACTED]. 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 [REDACTED], 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 [REDACTED] might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this [REDACTED] 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 [REDACTED], statements of or references to our intentions or that of any of our Directors are made as at the date of this [REDACTED]. Any such intentions may change in light of future developments.

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You should carefully consider all of the information in this [REDACTED], 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 risk 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 [REDACTED] of our Shares to decrease and cause you to lose all or part of your [REDACTED].

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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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 requirement, 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 remedy 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 jurisdiction that potential [REDACTED] 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 this [REDACTED].

In addition, we have applied for[, and have been granted], waivers from the [REDACTED] from strict compliance with certain requirements under the [REDACTED]. These waivers include (i) the distribution of annual report 21 days prior to our AGM; (ii) requiring our Controlling Shareholders or other Shareholders having an interest in a transaction to abstain from voting in a general meeting; and (iii) issuing a supplemental circular for persons nominated as Directors, amongst others. Shareholders will not have the benefit of those [REDACTED] for which we have applied[, and have been granted] waivers from the [REDACTED]. 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 [REDACTED] 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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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 [REDACTED] who choose to hold our Shares by physical possession of our share certificates. For example, Shareholders and potential [REDACTED] 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 deposited such Shares into [REDACTED] for trading on the [REDACTED]. You may also lose some of your rights as a Shareholder, such as voting rights, under certain limited circumstances.

[REDACTED] Beneficial Owners who do not physical possess our share certificates are not subject to these risks. Investors are strongly encouraged to hold your [REDACTED] in our Company through [REDACTED].

Our internal rules for 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 in our Share Register. For example, our internal rules 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 internal rules 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.

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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 [REDACTED] who choose to invest outside [REDACTED] 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 [REDACTED] 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 [REDACTED] for trading on the [REDACTED]. This will in particular affect Shareholders and potential [REDACTED] who seek to trade the Shares on a [REDACTED] basis, whereby dealings in Shares on the [REDACTED] customarily take place two business days prior to settlement. The waiting period of up to six days may lead to settlement failure and investors are strongly advised to formulate your investment schedule in accordance with this waiting period.

[REDACTED] 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% 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.

[REDACTED] should note that, due to the inherent characteristics of [REDACTED], our Company is unable to ascertain the identity, and consequently the tax residence, of the [REDACTED] 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 [REDACTED] Beneficial Owners. [REDACTED] Beneficial Owners are not entitled to tax relief under the Hong Kong-Japan Tax Treaty. [REDACTED] who choose to invest through [REDACTED] are subject to a higher withholding tax rate.

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

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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.

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 you our results will improve

Our gross pay-ins decreased by ¥29,686 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 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 [REDACTED], many of which are beyond our control. We cannot guarantee you 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 [REDACTED] expenses in relation to the [REDACTED] and a retirement payment to a retired Director.

Regarding [REDACTED] expenses, the total expenses in relation to the [REDACTED] (comprising principally professional fees and [REDACTED] commission) are estimated to be approximately ¥[REDACTED] (approximately HK\$[REDACTED]) (assuming an [REDACTED] of HK\$[REDACTED] per Share (being the mid-point of the proposed [REDACTED] range)) of which approximately ¥[REDACTED] (approximately HK\$[REDACTED]) is directly attributable to the issue of new shares [REDACTED] and to be accounted for as a deduction from equity, and approximately ¥[REDACTED] (approximately HK\$[REDACTED]) has been or is expected to be recognised as expenses in our consolidated statements of comprehensive income. During the six months ended 30 September 2014, we already incurred ¥[REDACTED] (approximately

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HK\$[REDACTED]) which were accounted for as our administrative and other operating expenses. Therefore, by the completion of the [REDACTED], we expect to incur an additional approximately ¥[REDACTED], also to be accounted for as our administrative and other operating expenses (approximately HK\$[REDACTED]). The amount of additional [REDACTED] expenses expected to be incurred for the completion of the [REDACTED] 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.

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, two hotels 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 with the operator of the affected nuclear plants, Tokyo Electric Power Company, Incorporated* (東京電力株式会社), who compensated us in the amount of around ¥590 million during the six months ended 30 September 2014 for our loss incurred during the one-year period after the Great East Japan Earthquake. Our Directors are considering the most appropriate method to obtain compensation for subsequent years which we may not get. Aside from this permanently closed hall, none of our operating 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).

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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.

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 license 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 activity, 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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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 a 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 30 September 2014, we had outstanding indebtedness of ¥20,963 million (equivalent to approximately HK\$1,509 million as calculated using the rate of ¥13.89 to HK\$1.00, which was the exchange rate prevailing on 30 September 2014). See “Financial Information — Indebtedness”. Our loan facilities and credit agreements impose certain conditions, including

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financial and operating covenants, that restrict our 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 [REDACTED], we will become a [REDACTED] company subject to the reporting obligations of the Hong Kong [REDACTED]. 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 [REDACTED] 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 [REDACTED], as a [REDACTED] 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 [REDACTED] 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 and have implemented measures to improve and remedy certain deficiencies identified through the assistance of an independent third-party consultant. However, we cannot assure you that we will be able to successfully address these issues all the time. Further, 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.

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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%, 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 demolition costs of these buildings range from ¥3.9 million to ¥127.7 million excluding other costs.

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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.

We may not be able to procure machines that continue to attract and retain customers as player preferences and market trends evolve over time

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

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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 October 2014. 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.

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.

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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 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.

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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 [REDACTED], the Taniguchi Consortium will own a total of approximately [REDACTED]% of our total number of [REDACTED]. Members of the Taniguchi Consortium are [REDACTED] of each other under the [REDACTED], and persons acting in concert with each other within the meanings under the [REDACTED]. 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 change of control. To the extent permitted under the [REDACTED] 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

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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 operated 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 the total gross pay-ins was 1.3%, while our market share based on the number of halls is 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 in Japan is examining a bill legalising the operations of casinos in Japan. 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

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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”.

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.

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

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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, which 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 ¥18.4 trillion in 2014 to approximately ¥17.3 trillion in 2018. 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 may have an adverse effect on our business, results of operations and financial condition.

[REDACTED]

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KEY JAPAN LEGAL AND REGULATORY MATTERS

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 [REDACTED]. As the information contained below is in summary form, it does not contain all of the information that may be important to [REDACTED]. **If you are in any doubt about any content of this section or information contained in this [REDACTED] 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 [REDACTED] who choose to hold our Shares by physical possession of our 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 [REDACTED] 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. This means 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. 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.

Risks associated with bearer shares

Our “*bearer shares*” create inherent risks for our Shareholders and potential [REDACTED] who choose to hold our Shares by physical possession of our share certificates. These risks include:-

- (i) *lost or destroyed share certificates* - Shareholders and [REDACTED] 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 these Shares; and
- (iii) *non-transferability* - Shareholders and [REDACTED] 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 deposited such Shares into [REDACTED] for trading on the [REDACTED] during a mandatory one-year waiting period prescribed under Japan law.

See “— A. Bearer Shares — Lost / destroyed share certificates” in this section below for details of the consequences for our Shareholders and [REDACTED] if their share certificates are lost or destroyed. [REDACTED] may also refer to “*Understanding the Risks of Investing in Overseas [REDACTED]*” in the [REDACTED]'s website, “*Investor Relations — Key Japan Legal and Regulatory Matters*” in our Company's website, or the [REDACTED] despatched by [REDACTED] to the [REDACTED] from time to time.

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

Recommended measures for our Shareholders and [REDACTED]

1. *Holding your [REDACTED] through [REDACTED]* - [REDACTED] Beneficial Owners, who are [REDACTED] of our Company who hold their underlying interests in our Shares through [REDACTED], are not exposed to the risks associated with our “*bearer shares*” as they do not physically possess our share certificates. Interests of a [REDACTED] Beneficial Owner

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are essentially held and traded in scripless, or paperless, form within [REDACTED]. To become a [REDACTED] Beneficial Owners, apply for the Hong Kong [REDACTED] by completing the [REDACTED] or giving electronic instructions to [REDACTED]. See “[REDACTED]” for details.

2. *Surrendering your share certificates* - Shareholders and [REDACTED] who choose to invest outside [REDACTED] 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 [REDACTED], 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 [REDACTED] wishing to surrender their share certificates should apply through our [REDACTED] 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.

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 [REDACTED] Beneficial Owners:-

1. Registration of share transfers

Upon [REDACTED], 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) to Appendix 3 to the [REDACTED] and the Stamp Duty Ordinance. To comply with these requirements, we have adopted the following internal procedures for share certificates and share transfers:-

- (a) our Company will issue share certificates in registered form with the names and addresses of our Shareholders imprinted thereon;
- (b) any person seeking to have his name and address recorded as a Shareholder in our Share Register must present a transfer document duly executed and stamped. An acceptable transfer document 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

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original Shareholder (the “*record Shareholder*”) in the relevant share certificate and our Share Register. This can be a standard transfer form customarily adopted by companies listed on the [REDACTED] or a transfer form printed at the back of the share certificates; and

- (c) where the transferor or the transferee is a [REDACTED] such as [REDACTED], execution by hand or machine-imprinted signature will be accepted for the purpose of (b) above.

See “— A. Bearer Shares — Transfer of Shares” in this section below for detailed procedural and documentary requirements. Our Articles contain a provision that any entry and record made in our Share Register will be subject to any internal rules adopted by our Board from time to time (including those set out above). Our Directors have undertaken to the [REDACTED] not to revoke these internal rules so long as our Shares are [REDACTED] on the [REDACTED], unless and until our Company ceases to issue share certificates upon implementation of a scripless, or paperless securities market on the [REDACTED].

Our Japan Legal Adviser is of the view that the internal rules set out above should be permissible under the applicable Japan laws and regulations that are currently in force as at the date of this [REDACTED]. This is on the basis that (i) we are allowed under Japan law to impose 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 [REDACTED] on the [REDACTED], comply with paragraph 1(1) to Appendix 3 to the [REDACTED] and the Stamp Duty Ordinance would likely be regarded as a *reasonable ground*; and (iii) the internal rules set out above are disclosed to our Shareholders and [REDACTED] in this [REDACTED].

Notwithstanding the views of our Japan Legal Adviser above, you should note that the internal rules 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 internal rules 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 Shareholders are expected to hold their investments in our Company through [REDACTED] as in the case of most companies listed on the [REDACTED]. Nevertheless, we have been advised by our Japan Legal Adviser that our internal rules are highly likely to be upheld by a Japan court.

See “Risk Factors — Risks Relating to Key Japan Legal and Regulatory Matters — There are significant risks associated with physical possession of our share certificates” for the residual risks associated with our “*bearer shares*” despite the internal rules we put in place. We have applied for a waiver from strict compliance with paragraph 1(1) of Appendix 3 to the [REDACTED] on the basis of these internal rules. See “Waivers — B. Additional Waivers — Articles of Incorporation — Registration of share transfers” in this [REDACTED] for details.

[REDACTED] Beneficial Owners are not subject to the internal rules 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.

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2. *Single Share Register maintained in Hong Kong*

To minimise the risks exposed to our Shareholders and potential [REDACTED] in respect of our “Bearer” Shares, upon [REDACTED], our [REDACTED] will maintain our Share Register in Hong Kong, which will be our sole and principal share register. All issued Shares of our Company will be registered in our Share Register and subject to the internal rules 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 [REDACTED] will be responsible for the customary share registrar duties as required under the [REDACTED].

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 [REDACTED] market on the [REDACTED]. Under the scripless securities model currently proposed by the [REDACTED] and the [REDACTED], 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 [REDACTED] market on the [REDACTED] 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.

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Shareholders outside [REDACTED] ([REDACTED] form / [REDACTED] applicants under the [REDACTED])

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

	[REDACTED]	Headquarters in Japan
Address	[REDACTED]	1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan
Office hours	9:00 a.m. to 4:30 p.m. (Hong Kong time)	9:00 a.m. to 5:00 p.m. (Japan time)
Processing time	up to ten business days	ten business days
Documentary requirements	Applicants for registration of share transfers are required to produce the following documents, or the relevant application will not be processed:- • share certificates representing the Shares transferred; • specimen signature forms; and • 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 [REDACTED] on the [REDACTED] or a transfer form printed at the back of the share certificates.	

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.

[REDACTED] Beneficial Owners ([REDACTED] form / [REDACTED] via [REDACTED] under the [REDACTED])

[REDACTED] Beneficial Owners are not subject to the internal rules 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.

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Lost / Destroyed share certificates

Procedures for replacement of lost or destroyed share certificates adopted by our Company differ from those under the [REDACTED] in Hong Kong and those adopted by most companies listed on the [REDACTED].

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 [REDACTED]. 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;
- (iii) no person may effect a valid registration of a transfer of the relevant Shares or otherwise deposit the Shares into [REDACTED] for trading on the [REDACTED], 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

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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.

[REDACTED] 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 encouraged to hold your [REDACTED] in our Company through [REDACTED].

Reporting a lost / destroyed share certificate

We accept reports of lost or destroyed share certificates through our [REDACTED]. 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 [REDACTED] 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 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 Shareholders are expected to hold their investments in our Company through [REDACTED], as in the case of most companies listed on the [REDACTED].

It is our internal rules not to register anyone 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 seeks to be recognised as a Shareholder, we will notify the record Shareholders through our [REDACTED] 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 [REDACTED] from time to time.

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Share certificate surrender

Shareholders and potential [REDACTED] who choose to invest outside [REDACTED] 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 [REDACTED] 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 [REDACTED] for trading on the [REDACTED]. This will in particular affect Shareholders and potential [REDACTED] who seek to [REDACTED] the Shares on a [REDACTED] basis, whereby dealings in Shares on the [REDACTED] 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.

See “Risk Factors — Risks Relating to Key Japan Legal and Regulatory Matters — Surrendered Share Certificates can lead to Settlement Failure” 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 [REDACTED].

Surrendering your share certificates

We accept applications for surrendering a share certificate through our [REDACTED]. 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 [REDACTED]. Surrendered share certificates will be acknowledged with 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.

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Successful applicants or partially successful applicants of the [REDACTED] wishing to surrender their share certificates should apply through our [REDACTED] 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 [REDACTED]. 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 [REDACTED].

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 [REDACTED] and materially differ from the conventional requirements applicable to other companies listed on the [REDACTED].

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 [REDACTED], 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 [REDACTED], 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 [REDACTED]'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 [REDACTED] does not apply to us as our dividend payments, annual, interim or other, are not subject to Shareholders' approval under our Articles.

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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 [REDACTED]’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 [REDACTED], 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 [REDACTED], 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 [REDACTED]’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.

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 the Japan Companies Act, we are required to despatch the convocation notice of our AGM at least 14 days prior to the date thereof. Upon [REDACTED], we will, as required under the [REDACTED] 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 [REDACTED];
- (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

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- (c) either (i) an annual report including the Group’s annual accounts, which will be in compliance with the contents requirements under Appendix 16 to the [REDACTED]; or (ii) a summary financial report, which will be in compliance with the contents requirements under Rule 13.46(2)(a) of the [REDACTED]. 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.

We have applied to for[, and the [REDACTED] has granted us,] a partial waiver from Rule 13.46(2)(a) of the [REDACTED] and a waiver from strict compliance with paragraph 5 of Appendix 3 to the [REDACTED] so that our AGM convocation notice, together with the documents referred to in (a) to (c) above, may be despatched to our Shareholders not less than 14 days before the date of our AGM. This 14-day notice period differs from the 21-day requirements under the [REDACTED]. We consider that the difference is immaterial to our Shareholders and potential [REDACTED] as documents (a) to (c) above will be provided to them on a timely basis, which is the fundamental principle and objective under the [REDACTED].

See “Waivers — B. Additional Waivers — Distribution of Annual Report and Accounts” and “Waivers — B. Additional Waivers — Articles of Incorporation — Accounts” for details and basis of the waivers [granted] to us in this regard.

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 its 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 [REDACTED]) 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 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 [REDACTED], we expect to require Shareholders and their proxies or corporate representatives to submit their authorisation documents and impose additional requirements on the form and substance of such documents that are conventional and commensurate with the forms of proxy adopted by other companies [REDACTED] on the [REDACTED]. Detailed requirements will be set out in the convocation notice of each general meeting (including AGM).

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Request for a general meeting

A Shareholder who has held 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 held 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 [REDACTED]’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 an 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 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.

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 [REDACTED] and paragraph 4(4) of Appendix 3 to the [REDACTED], which provide that (i) an [REDACTED] shall publish an announcement or issue a supplementary circular upon receipt of a

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notice from a shareholder to propose a person for election as a director at the general meeting where such notice is received by the [REDACTED] 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 [REDACTED] of his willingness to be elected, must be at least seven days. We have applied for[, and the [REDACTED] 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 [REDACTED] 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 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 a vote against any last-minute amendment thereof.

Casting your votes in different ways

Under the Japan Companies Act, a Shareholder (including a nominee such as [REDACTED]) 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 [REDACTED], 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 [REDACTED]. Shareholders (including nominee companies such as [REDACTED]) 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 [REDACTED].

Material Interests in a transactions

The [REDACTED] require that, where a transaction or arrangement of an [REDACTED] is subject to shareholders’ approval under the provisions of the [REDACTED], 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 [REDACTED]. There are also certain matters where independent shareholders approvals are required under the [REDACTED].

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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 [REDACTED] and the [REDACTED].

To afford our Shareholders protections comparable to those available under the [REDACTED] and the [REDACTED], 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 [REDACTED] and/or the [REDACTED]:-

- (a) a general meeting shall be convened to seek our Shareholders’ approval of such matter;
- (b) our [REDACTED] 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 [REDACTED] 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 [REDACTED] and/or the [REDACTED]; 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.”

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 [REDACTED] 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 [REDACTED] on the [REDACTED], is required to comply with Rule 2.15 of the [REDACTED] and the other relevant provisions under the [REDACTED] and/or the [REDACTED]; 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.

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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 [REDACTED] and other relevant requirements under the [REDACTED] which specifically apply these abstention requirements; and (ii) the abstention requirements under the [REDACTED] with respect to transactions that require independent shareholders’ approval.

We have applied for[, and the [REDACTED] has granted us,] a waiver from strict compliance with the requirement under paragraph 14 of Appendix 3 to the [REDACTED] to amend our Articles in accordance with the abstention requirements under the [REDACTED]. 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 [REDACTED].

[REDACTED] Beneficial Owners

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

[REDACTED] will exercise the rights on behalf of [REDACTED] Beneficial Owners in the same way it does for shareholders of other companies [REDACTED] on the [REDACTED] the shares of which are deposited into [REDACTED].

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);

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- (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 amendments made to the Japan Companies Act in June 2014, which will take effect at a later date to be announced by the relevant Japanese authority).

A Shareholder or creditor wishing to inspect our Share Register shall attend our [REDACTED]'s office during normal business hours in Hong Kong. Our [REDACTED] will require the person to complete a prescribed form setting out his/her details and the purposes of inspection. Our [REDACTED] 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 [REDACTED] 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;
- (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.

[REDACTED] 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.

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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 [REDACTED], 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 [REDACTED], a record date in relation to final dividend, if any, will be announced by public notice in Japan, which will be replicated on the [REDACTED]’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 [REDACTED], 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 [REDACTED], 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 [REDACTED]’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

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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 [REDACTED] 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.

Our Company will procure our accounting auditor to prepare reconciliation between our financial statements under JGAAP and IFRS for each financial year following the [REDACTED] and despatch 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 [REDACTED] 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 rate 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 [REDACTED]. 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 [REDACTED] of its election. Upon declaration of

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dividend payment, our [REDACTED] 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 [REDACTED] 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 [REDACTED] Beneficial Owners will receive dividend payments in Hong Kong Dollars. Any [REDACTED] Beneficial Owner who wishes to elect to receive his/her dividend payments in Japanese Yen must withdraw the relevant Shares from [REDACTED] 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 [REDACTED].

D. CAPITAL STRUCTURE

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

Issuing Mandate

There is no concept of pre-emptive rights (as defined in the [REDACTED]) 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 of Directors 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 [300,000,000] 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 of Directors 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

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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 approved by an ordinary resolution.

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 [10 March] 2015, our Directors have been granted with the Issuing Mandate to issue, allot and [REDACTED] 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 [10 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 [300,000,000] 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 Directors to [REDACTED], allot and [REDACTED] 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 ordinary resolution in our extraordinary general meeting held on [10 March] 2015 approving the Issuing Mandate contained all the required information prescribed under our Articles. Our Directors have undertaken to the [REDACTED] 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 a Third Party Allotment is *especially favourable*.

Our Directors have been advised that the Issuing Mandate is in compliance with Rule 13.36 of the [REDACTED].

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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 [REDACTED], we will effect repurchases of our Shares outside the [REDACTED] in accordance (i) and (ii) above, subject to compliance with all applicable [REDACTED] and/or the [REDACTED]. Repurchases on the [REDACTED] will be effected under the Repurchase Mandate granted to our Directors by our Shareholders on [10 March] 2015 in compliance with Rule 10.06 of the [REDACTED] 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 of Directors (so long as such repurchases comply with the applicable requirements under the [REDACTED]), allowing our Directors 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 [REDACTED], which is not a securities exchange in Japan, is a market transaction

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etc.* (市場取引等). Given the lack of judicial precedent, our Directors have undertaken to the [REDACTED] that they will not exercise the Repurchase Mandate to repurchase our Shares on the [REDACTED] unless there is clear judicial authority allowing us to make repurchases on the [REDACTED] thereunder.

For details of the Japan law and [REDACTED] 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 [REDACTED] 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 [REDACTED] 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 [REDACTED] can accept responsibility for any impact on the tax liabilities of, Shareholders resulting from their subscription for, purchase, holding or disposal of or otherwise dealing in our Shares or exercising any rights attaching to them.

1. Withholding Tax on Dividend Payment

Japanese Shareholders

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

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

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Non-Japanese Shareholders

Shareholders who choose to invest outside [REDACTED] 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:

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

Note:

- (1) Individual and corporate Shareholders who are residents or entities incorporated in Hong Kong having no permanent Japan presence in Hong Kong 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 “— The Hong Kong-Japan Tax Treaty” in this section below for details.

[REDACTED] Beneficial Owners

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

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

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As such, our Company will withhold tax on the dividends payable to [REDACTED] 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.

Withholding tax held in excess

[REDACTED] 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 [REDACTED] 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 [REDACTED] from the National Tax Agency. Set out below are the rates of refunds that our [REDACTED] Beneficial Owners may be entitled to depending on their residence or jurisdictions of incorporation:-

(a) Hong Kong [REDACTED] Beneficial Owners

[REDACTED] 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:-

	Individual Shareholder that is interested in less than 3% of our total number of issued Shares	Individual Shareholder that is interested in 3% or more of the entire issued Shares of our total number of issued Shares	Corporate Shareholder
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 [REDACTED]	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 [REDACTED] Beneficial Owners

[REDACTED] 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:-

	Individual Shareholder that is interested in less than 3% of our total number of issued Shares	Individual Shareholder that is interested in 3% or more of the entire issued Shares of our total number of issued Shares	Corporate Shareholder
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 [REDACTED]	20.315%	20.420%	15.315%
Possible rate of refunds from the National Tax Agency	0.105%	0%	5.105%

Japanese [REDACTED] 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 these operations. 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 [REDACTED] Beneficial Owners

Other [REDACTED] 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:-

	Individual Shareholder that is interested in less than 3% of our total number of issued Shares	Individual Shareholder that is interested in 3% or more of the entire issued Shares of our total number of issued Shares	Corporate Shareholder
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 [REDACTED]	15.315%	20.420%	15.315%
Possible rate of refunds from the National Tax Agency	5.105%	0%	5.105%

[REDACTED] 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 [REDACTED] prepared by us in the form and substance acceptable to the National Tax Agency. Electronic copies of such [REDACTED] will be available on our Company’s website upon [REDACTED]. In addition, physical [REDACTED] 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 [REDACTED]. Our Company will announce to our Shareholders on each occasion these [REDACTED] become available. Potential [REDACTED] should note that there may be delays in obtaining this refund. Detailed documentary requirements for the refund process applicable to our [REDACTED] 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 presence 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 [REDACTED] 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 [REDACTED] for Income Tax Convention (Relief from Japanese Income Tax on Dividends). Such [REDACTED] 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. [REDACTED] in Japanese and English, together with an unofficial Chinese translation of the instructions for completing the [REDACTED], will be made available to our Shareholders at our Company’s principal place of business in Hong Kong and our [REDACTED] 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 [REDACTED] 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 [REDACTED] 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. Physical [REDACTED] for tax refund in Japanese and English, including an unofficial Chinese translation of the instructions for completing the [REDACTED], will be made available to our Shareholders at our Company’s principal place of business in Hong Kong and our [REDACTED]. Our Company will announce to our Shareholders on each occasion these [REDACTED] become available. Potential [REDACTED] 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 [REDACTED] 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.

Our Tax Adviser is of the view that at this moment, [REDACTED] Beneficial Owners cannot make a claim under a tax treaty, because the name, address and other information of a [REDACTED] Beneficial Owner cannot be identified due to the inherent characteristics of [REDACTED]. 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 [REDACTED] Beneficial

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Owners residing in such other country. In the event that the National Tax Agency has approved the application of tax treaty to such [REDACTED], we will publish a separate announcement on the [REDACTED]’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 [REDACTED], all Share certificates of our Company will be issued by our [REDACTED]. Accordingly, no Japanese stamp duty is, in principle, payable for our new Share certificates.

[REDACTED]

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.

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 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.

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Our Tax Adviser has confirmed that in respect of Shares deposited into [REDACTED], only capital gains realised by the [REDACTED] Beneficial Owners are taxable under Japan law. Neither nor the [REDACTED] are subject to any Japanese capital gains tax reporting or payment obligation directly arising from dealing in our Shares on behalf of the [REDACTED] Beneficial Owners (even if a [REDACTED] 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.

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ス), our Tax Adviser, has advised our Company in writing as to (1) our potential investor’s exposure to (i) Japanese withholding tax 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; and (2) our Company’s exposure to Japanese withholding tax on dividend payments from our subsidiaries. The letter of advice is available for inspection in accordance with “Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection”.

KEY JAPAN LEGAL AND REGULATORY MATTERS

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 and holding of Shares by foreign investors of our Company. Under certain limited circumstances, Shareholders and [REDACTED] Beneficial Owners may under certain prescribed circumstances 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 [REDACTED] 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 the list of exempted jurisdictions and the 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

Pursuant to Hong Kong law, any change to the constitutional documents of a company requires the approval of shareholders with a three-quarter 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.

Variation of rights

Pursuant to Hong Kong law, rights attached to any class of shares of a company may only be varied with the approval of shareholders with a three-quarter majority vote in a general meeting. 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

KEY JAPAN LEGAL AND REGULATORY MATTERS

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

Pursuant to Hong Kong law, notwithstanding anything in the memorandum or articles of a company, any alteration in the constitutional document to increase an existing shareholder’s liability to the company is not binding unless agreed by the shareholder in writing, either before or after the alteration is made. 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 the Company. The standard of shareholders’ protection under Japan law is not materially different to that under Hong Kong law.

Winding Up

Pursuant to Hong Kong law, the voluntary winding up of a company must be approved by shareholders with a three-quarter majority vote in a general shareholders’ 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.

Auditors

Pursuant to Hong Kong law, the appointment, removal and remuneration of auditors must be approved by shareholders with 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.

KEY JAPAN LEGAL AND REGULATORY MATTERS

Register of members

Pursuant to Hong Kong law, a company must ensure that its branch register of members in Hong Kong is open to inspection by shareholders. In the case of our Company, our [REDACTED] 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

Pursuant to Hong Kong law, the minority shareholders of a company may be bought out or may require an offeror to buy out their interests if the offeror acquires nine-tenths in value of the shares for which the offer is made (or if the offer relates to shares of different classes, nine-tenths in value of the shares of that class). Japan law provides that upon an offeror acquiring two-thirds of the voting rights of a company’s shares, so long as the offeror is a stock company* (株式会社) or a limited liability company* (合同会社) under the Japan Companies Act, the offeror may compulsorily acquire the shares held by the remaining shareholders by way of a share exchange* (株式交換), subject to shareholders’ approval.

While there is no restriction in relation to the compulsory acquisition price, if the compulsory acquisition price is too low, the shareholders may, within three months from the day of the passing of the resolution of the general meetings regarding the compulsory acquisition, claim revocation of the resolution as a grossly improper resolution under the Japan Companies Act. Where a shareholder has objected and voted against a compulsory acquisition resolution in a general meeting, or a shareholder does not have a voting right in the general meeting, such shareholder may request the company to repurchase his shares at a fair price under the Japan Companies Act, and if the company and the shareholder are not able to reach an agreement on the fair price within 30 days from the effective date of such compulsory acquisition resolution, such shareholder may petition a court in Japan to determine the fair price within 30 days from the expiry date of the 30-day discussion with the company.

In addition, under the Japan Companies Act, where an offeror acquires 90% or more of the voting rights in a company, the board of directors of the company may approve the acquisition of the remaining shares by way of a share exchange* (株式交換) without shareholders’ approval. In that case, in addition to the right to request the company to repurchase his/her shares at a fair price, any shareholder who may suffer disadvantage due to the transaction may also file a petition to a court in Japan to cease the compulsory acquisition on the ground that such compulsory acquisition violates the law and/or the articles of the company or that the compulsory acquisition price is significantly unfair.

KEY JAPAN LEGAL AND REGULATORY MATTERS

In June 2014, certain amendments (the “JCA Amendments”) were made to the Japan Companies Act which will take effect at a later date to be announced by the relevant Japanese authority. Under the JCA Amendments, regardless of whether the offeror is a stock company* (株式会社) or a limited liability company* (合同会社) under the Japan Companies Act, where an offeror holds 90% or more of the voting rights in a company, such offeror may compulsorily acquire all of other shareholders from all other shareholders, subject to directors’ approval. In that case, a shareholder may file a petition to a court in Japan to determine the fair price or to cease the compulsory acquisition under certain circumstances.

Accordingly, the standard of shareholders’ protection under Japan law is not materially different to that under Hong Kong law.

Meetings

Pursuant to Hong Kong law, a company is required to hold a general meeting each year as its annual general meeting. Not more than 15 months shall lapse between the date of one annual general meeting of a company and the next. 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.

Right to convene meetings

Pursuant to Hong Kong law, shareholders holding not less than 5% of the paid-up capital of a company may require the company to convene an extraordinary general meeting and may request the company to circulate a resolution proposed by the requisitionists to members entitled to receive notice of that meeting. 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

Pursuant to Hong Kong law, a company must ensure that any annual general meeting or any extraordinary general meeting at which a resolution that requires the approval of shareholders by three-quarter majority vote will be proposed shall be convened on at least 21 days’ written notice, and that any other general meeting shall be convened on at least 14 days’ written notice. We have applied to for[, and the [REDACTED] has granted us,] a partial waiver from Rule 13.46(2)(a) of the [REDACTED] and a waiver from strict compliance with paragraph 5 of Appendix 3 to the [REDACTED] so that our AGM convocation notice may be despatched to our Shareholders not less than 14 days before the date of our AGM. This 14-day notice period differs from the 21-day

KEY JAPAN LEGAL AND REGULATORY MATTERS

requirements under the [REDACTED]. We consider that the difference is immaterial to our Shareholders and [REDACTED] as the convocation notice will be provided to them on a timely basis, which is the fundamental principle and objective under the [REDACTED] and the Joint Policy Statement.

In addition, after the convocation notice of a general meeting has been despatched, a Shareholder is permitted to propose an 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.

Voting

Pursuant to Hong Kong law, an overseas company must adopt general provisions as to meetings and voting on terms that are comparable to those required of a Hong Kong incorporated [REDACTED] company. Japanese companies have similar procedures for the distributions of notices and voting. Notice of general meetings will be published on our website as well as the website of the [REDACTED]. To address the differences between the requirements under the Japan Companies Act and the [REDACTED], we have adopted certain voluntary measures to impose additional conditions on transactions or arrangements that are subject to Shareholders’ approval under the [REDACTED] and/or the [REDACTED], the details of which are set out in “- B. Shareholders Meetings - Material Interests in a Transaction” in this section above. Given the voluntary measures in place, we consider that the shareholders protections offered under Japan law are comparable to those available under Hong Kong law.

Proxies

Pursuant to Hong Kong law, proxies or corporate representatives may be appointed to attend general meetings and such proxies or corporate representatives should enjoy statutory rights, including the right to speak at such meetings. In addition, Hong Kong companies must insert a prominent statement of each shareholder’s right to appoint proxies in the notice of general meeting. 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.

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Voting by poll

Pursuant to Hong Kong law, shareholders must be able to demand a poll. 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

Pursuant to Hong Kong law, the appointment of each director is required to be voted on individually. An 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 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

Pursuant to Hong Kong law, a director is required to declare any material interest in any contract with a company at the earliest meeting of the board of directors of the company. A company is also required to include in any notice of its intention to move a resolution in a general meeting or class meeting particulars of the relevant interests of directors in the matter dealt with by the resolution. Under the Japan Companies Act, a director must report all the material facts, including his/her interest, with respect to such 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 [REDACTED]) has a material interest (as explained under the [REDACTED]) nor shall he be counted in the quorum in the relevant meeting.

Loans to directors

Pursuant to 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

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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.

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 we were a [REDACTED] company incorporated in Hong Kong).

Payments to directors

Pursuant to Hong Kong law, any payment to a director or past director of a company as compensation for loss of office or retirement from office is required to be approved by shareholders with 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 referent 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

Pursuant to Hong Kong law, any alteration of share capital in the company must be approved by shareholders with a majority vote in a general meeting. Japan law provides that an increase in the number of authorised shares to be issued can only be made by an alteration of a company’s articles of incorporation, 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

Pursuant to Hong Kong law, any reduction of share capital in a company must be 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 three-quarter majority vote in a general meeting. 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

KEY JAPAN LEGAL AND REGULATORY MATTERS

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.

Redemption of shares

Pursuant to Hong Kong law, a company may only redeem its shares out of distributable profits or fresh proceeds from a new issue of shares. 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 under Japan law applicable to our Company is therefore similar to or comparable with that under Hong Kong law.

Financial assistance

Pursuant to 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 for doing 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 we were a [REDACTED] company in Hong Kong).

H. ONGOING INVESTOR EDUCATION

Information contained in this section will be available at our Company’s website upon [REDACTED] for the benefits for potential [REDACTED] who may invest in our Company in the 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 and interim report and the front page of the “Investor Relations” section of our Company’s website.

WAIVERS

In preparation for the [REDACTED], we have applied for[, and have been granted by the [REDACTED],] a number of waivers from strict compliance with certain provisions under the [REDACTED]. 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 [REDACTED] 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 the waivers), we will notify the [REDACTED] as soon as practicable.

A. COMMON WAIVER

Set out below is the common waiver of general effects that was [granted] to us by the [REDACTED] under Rule 2.04 of the [REDACTED] with the prior consent of the [REDACTED]:-

Relevant Rule(s) waived	Subject matter	Page No.
Rule 8.12	Sufficient management presence in Hong Kong	93

MANAGEMENT PRESENCE IN HONG KONG

Under Rule 8.12 of the [REDACTED], 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.

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 [REDACTED].

WAIVERS

In light of the aforesaid, we have applied for[, and the [REDACTED] has granted us,] a waiver from strict compliance with Rule 8.12 of the [REDACTED] on the following conditions:-

- (a) pursuant to Rules 2.11, 3.05 and 19.36(6) of the [REDACTED], we have appointed two authorised representatives who will act as our principal channel of communication with the [REDACTED]. 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 [REDACTED] on reasonable notice as and when required and will be readily available by telephone, email and facsimile to promptly address the enquiries of the [REDACTED] and their contact details (including mobile phone numbers, residential and office phone numbers and facsimile numbers) have been provided to the [REDACTED]. We will inform the [REDACTED] 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 [REDACTED]. The authorised representatives will be able to contact our Directors promptly at all times as and when the [REDACTED] wishes to contact our Directors on any matter. Each of our Directors is authorised to communicate on our Company's behalf with the [REDACTED];
- (c) all Directors have provided their mobile phone numbers, office phone numbers, facsimile numbers and email addresses to the [REDACTED]. Each of our Directors is authorised to communicate on our Company's behalf with the [REDACTED];
- (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 [REDACTED] within a reasonable timeframe upon request of the [REDACTED];
- (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 [REDACTED] and other applicable laws and regulations in Hong Kong after the [REDACTED];
- (f) pursuant to Rule 3A.19 of the [REDACTED], 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 date on the [REDACTED] 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 [REDACTED]; and
- (g) meetings between the [REDACTED] and our Directors could be arranged through the authorised representatives or the compliance adviser, or directly with our Directors, within a reasonable time frame.

WAIVERS

Our Directors and the Sole Sponsor have confirmed that the conditions set out under the appendix to the Joint Policy Statement and the [REDACTED]'s [REDACTED] 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 [REDACTED] based on the circumstances that are specific to us:-

Relevant Rule(s) waived	Subject matter	Page No.
Rule 13.46(2)(a)	Distribution of Annual Report and Accounts	95
Rule 13.70	Announcement of Nomination of Director(s)	97
Paragraphs 1(1), 2(2), 3(1), 4(2), 4(4), 4(5), 5, 12, 13(1) and 14 of Appendix 3 to the [REDACTED] . . .	Requirements with respect to our Articles	98

DISTRIBUTION OF ANNUAL REPORTS AND ACCOUNTS

Rule 13.46(2)(a) of the [REDACTED] provides that an overseas [REDACTED] shall send to every member of the [REDACTED] and every other holder of its [REDACTED] securities a copy of either its annual report including its annual accounts or its summary financial report, not less than 21 days before the date of the [REDACTED] annual general meeting and in any event not more than four months after the end of the financial year to which they relate. Rule 13.46(2)(a) of the [REDACTED] also provides that a summary financial report prepared by an [REDACTED] must comply with provisions no less onerous than the relevant provisions set out in section 141 of the Companies Ordinance and in the Companies (Summary Financial Reports of [REDACTED]) Regulation (Chapter 32M of the Laws of Hong Kong) for [REDACTED] incorporated in Hong Kong.

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 of our Company. Under the Japan Companies Act, we are required to despatch the convocation notice of our AGM at least 14 days prior to the date thereof. Upon [REDACTED], we will, as required under the [REDACTED] 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,

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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 [REDACTED];

- (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. The 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 annual accounts, which will be in compliance with the contents requirements under Appendix 16 to the [REDACTED]; or (ii) a summary financial report, which will be in compliance with the contents requirements under Rule 13.46(2)(a) of the [REDACTED]. 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.

We have applied to for[, and the [REDACTED] has granted us,] a partial waiver from strict compliance with Rule 13.46(2)(a) of the [REDACTED] such that our AGM convocation notice, together with the documents referred to in (a) to (c) above, may be despatched to our Shareholders not less than 14 days before the date of our AGM, on the following basis:-

- (aa) we consider that our Shareholders will not be unfairly prejudiced by the partial waiver, due to:-
 - (x) the extensive financial information referred to in (a) to (c) above provided by us in compliance with the disclosure requirements under both the [REDACTED] and the Japan Companies Act; and
 - (y) the voluntary quarterly financial results to be published by our Company, which is more frequently than most [REDACTED] on the [REDACTED];
- (bb) it will be unduly burdensome and practically difficult for us to comply with the 21-day requirement under Rule 13.46(2)(a) of the [REDACTED]. As stated above, we are required under the Japan Companies Act to hold our AGM within three months of our financial year end. If we were required to comply with Rule 13.46(2)(a) of the [REDACTED], we would have one month less than Hong Kong incorporated companies to produce our annual report or summary financial report (as the case may be);

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- (cc) notwithstanding the partial waiver, we consider that our Shareholders and investors will be informed on a timely basis of our business operation and annual financial results, which is the fundamental objective and principal under Rule 13.46(2)(a) of the [REDACTED]; and
- (dd) we will comply with the content requirements with respect to an annual report and annual accounts under Appendix 16 to the [REDACTED] or, as the case may be, the content requirements with respect to a summary financial report under Rule 13.46(2)(a) of the [REDACTED].

ANNOUNCEMENT OF NOMINATION OF DIRECTOR(S)

Rule 13.70 of the [REDACTED] requires that an [REDACTED] 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 [REDACTED] after publication of the notice of meeting. The Note to Rule 13.70 of the [REDACTED] further provides that the [REDACTED] 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 an 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 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.

In light of these Japan law provisions, the requirements under Rule 13.70 of the [REDACTED] 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 [REDACTED] has granted us,] a partial waiver from strict compliance with Rule 13.70 of the [REDACTED] 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 [REDACTED]’s website and the website of our Company in English and Chinese.

WAIVERS

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 [REDACTED].

Our Directors and the Sole Sponsor have confirmed that the [REDACTED]’s approach set out in the Country Guide with respect to Rule 13.70 of the [REDACTED] 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 [REDACTED].

ARTICLES OF INCORPORATION

Appendix 3 to the [REDACTED] provides that the articles of association or equivalent document of an [REDACTED] 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 [REDACTED].

Our Articles do not contain equivalent provisions in compliance with certain requirements under Appendix 3 to the [REDACTED] on the basis that the protections afforded to our Shareholders are comparable to those available under the [REDACTED] 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 [REDACTED] and any difference between the Japan law requirements and the requirements under the [REDACTED].

Registration of Share transfers

Paragraph 1(1) of Appendix 3 to the [REDACTED] provides that transfers and other documents relating to or affecting the title to any registered securities shall be registered.

Our Articles contain no equivalent provision. Our Shares are “bearer shares” in nature. Under Japan law, if a company states in its articles of incorporation*(定款) that physical share certificates must be issued, a bearer, or a physical holder, of a share certificate issued by that company is generally recognised as the owner of the shares represented by it, regardless of whether the name of that bearer appears on such share certificate. Ownership of shares can be transferred simply by the delivery of the share certificates, with or without the transferor and the transferee having signed any document evidencing such transfer. Our Articles provide that physical share certificates must be issued with respect to our Shares and we are therefore subject to the preceding Japan law provisions. However, as provided under our Articles and the Japan Companies Act, title to our Shares shall not be perfected against our Company unless and until a person’s name and address are recorded in our Share Register. This means our Company shall not associate any of the Shareholders’ rights such as voting right and rights to receive dividends with any person unless his/her name appears on our Share Register.

WAIVERS

We have adopted the following voluntary measures to afford our Shareholders protections comparable to those available under paragraph 1(1) of Appendix 3 to the [REDACTED]:-

- (a) upon [REDACTED], our [REDACTED] will maintain our Share Register in Hong Kong, recording the names, addresses and other details of our Shareholders;
- (b) our Board of Directors have resolved to adopt internal rules that:
 - (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 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;
 - (iii) our Company will regard a standard transfer form customarily adopted by [REDACTED] on the [REDACTED] 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 rule (ii) above;
 - (iv) where the transferor or transferee is a [REDACTED], execution by hand or machine-imprinted signature will be accepted for the purpose of rules (ii) and (iii) above; and
 - (v) our Share Register maintained in Hong Kong will be our sole and principal share register;
- (c) our Articles contain a provision that any entry and record made in our Share Register will be subject to internal rules duly approved by our Board of Directors from time to time (which include the internal rules referred to in measure (b) above); and
- (d) Our Directors have undertaken to the [REDACTED] not to revoke the internal rules referred to in measure (b) above so long as our Shares are [REDACTED] on the [REDACTED], unless and until our Company ceases to issue share certificates upon implementation of a scripless, or paper-less, securities market on the [REDACTED];
- (e) 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 [REDACTED].

For further details on the registration of ownership and transfers of our Shares, see “Key Japan Legal and Regulatory Matters — A. Bearer Shares” in this [REDACTED]. Our Directors and the Sole Sponsor have confirmed that the [REDACTED]'s approach as set out in the Country Guide with respect to bearer shares and paragraph 1(1) of Appendix 3 to the [REDACTED] is adopted.

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Definitive certificates

Paragraph 2(2) of Appendix 3 to the [REDACTED] 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 [REDACTED] 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 [REDACTED].

Dividends

Paragraph 3(1) of Appendix 3 to the [REDACTED] 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 [REDACTED] 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 [REDACTED] 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

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the vacancy causes the number of appointed directors to fall below the number of directors required either under the articles of incorporation 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 [REDACTED] (such as the requirement to appoint at least three Independent Non-executive Directors under Rule 3.10(1) of the [REDACTED]). Upon [REDACTED], when the number and composition of our Board fall short of the requirements under the [REDACTED], 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 [REDACTED] 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 [REDACTED] 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 [REDACTED] of his willingness to be elected, must be at least seven days. Paragraph 4(5) of Appendix 3 to the [REDACTED] 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 [REDACTED] 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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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 [REDACTED]:-

- (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 [REDACTED]'s website and the website of our Company in English and Chinese.

Our Directors and the Sole Sponsor have confirmed that the [REDACTED]'s approach as set out in the Country Guide with respect to paragraphs 4(4) and 4(5) of Appendix 3 to the [REDACTED] 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 [REDACTED].

Accounts

Paragraph 5 of Appendix 3 to the [REDACTED] provides that a copy of either (i) the directors' report, with the balance sheet and profit and loss account or income and expenditure account; or (ii) the summary financial report shall, at least 21 days before the date of the general meeting, be delivered or sent by post to the registered address of every member.

Our Articles provide that our AGM convocation notice will be despatched by post to the registered address of every Shareholder together with our business report* (事業報告), audited financial report and either (i) an annual report and our annual accounts; or (ii) a summary financial information, in the forms and contents required under the [REDACTED], no less than 14 days prior to the date of the AGM of our Company.

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 the Japan Companies Act, we are required to despatch the convocation notice of our AGM at least 14 days prior to the date thereof. Upon [REDACTED], we will, as required under the [REDACTED] and the Japan Companies Act, prepare and despatch the following documents together with the AGM convocation notice of our Company:-

- (a) a business report* (事業報告), which would include overview of our key business status, such as, the progress and results of our 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 [REDACTED];

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- (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 financial information, 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 annual accounts, which will be in compliance with the contents requirements under Appendix 16 to the [REDACTED]; or (ii) a summary financial report, which will be in compliance with the contents requirements under Rule 13.46(2)(a) of the [REDACTED]. 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.

Our Articles provide that the AGM convocation notice of our Company, together with the documents referred to in (a) to (c) above, may be despatched to our Shareholders not less than 14 days before the date of the AGM of our Company (instead of 21 days as provided under the [REDACTED]). We consider that the protections afforded to our Shareholders under our Articles provisions above are acceptable when compared to those available under paragraph 5 of Appendix 3 to the [REDACTED] on the following basis:-

- (aa) we consider that our Shareholders will not be unfairly prejudiced by our Articles provisions, due to:-
 - (x) the extensive financial information referred to in (a) to (c) above provided by our Company in compliance with the disclosure requirements under both the [REDACTED] and the Japan Companies Act; and
 - (y) the voluntary quarterly financial results to be published by our Company, which is more frequently than most [REDACTED] on the [REDACTED];
- (bb) it will be unduly burdensome and practically difficult for our Company to comply with the 21-day requirement under paragraph 5 of Appendix 3 to the [REDACTED]. As stated above, we are required under the Japan Companies Act to hold our AGM within three months of the financial year end of our Company. If we were required to comply with paragraph 5 of Appendix 4 to the [REDACTED], we would have one month less than Hong Kong incorporated companies to produce our annual report;
- (c) notwithstanding our Articles provisions, we consider that our Shareholders and investors will be informed on a timely basis of our business operation and annual financial results, which is the fundamental objective and principal under paragraph 5 to Appendix 3 to the [REDACTED]; and

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- (d) we will comply with the content requirements with respect to an annual report and annual accounts under Appendix 16 to the [REDACTED] or, as the case may be, the content requirements with respect to a summary financial report under Rule 13.46(2)(a) of the [REDACTED].

Disclosure of Interests

Paragraph 12 of Appendix 3 to the [REDACTED] 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 the Articles pursuant to this requirement will be redundant and unnecessary under Japan law.

Untraceable members

Paragraph 13(1) of Appendix 3 to the [REDACTED] provides that an [REDACTED] must not stop sending dividend warrants by post until these warrants are left uncashed on two consecutive occasions. However, an [REDACTED] 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 [REDACTED].

Material interests in a transaction

Paragraph 14 of Appendix 3 to the [REDACTED] provides that, where any shareholder is, under the [REDACTED], 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 [REDACTED] and the [REDACTED].

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To afford our Shareholders protections comparable to those available under paragraph 14 of Appendix 3 to the [REDACTED], 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 [REDACTED] and/or the [REDACTED]:-

- (a) a general meeting shall be convened to seek our Shareholders’ approval of such matter;
- (b) our [REDACTED] 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 [REDACTED] 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 [REDACTED] and/or the [REDACTED]; 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 [REDACTED] and other relevant requirements under the [REDACTED] which specifically apply these abstention requirements; and (ii) the abstention requirements under the [REDACTED] with respect to transactions that require independent Shareholders’ approval.

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” in this [REDACTED]. Our Directors and the Sole Sponsor have confirmed that the [REDACTED]’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 [REDACTED].

Waiver

We have applied for[, and the [REDACTED] has granted us,] a waiver from strict compliance with paragraphs 1(1), 2(2), 3(1), 4(2), 4(4), 4(5), 5, 12, 13(1) and 14 of Appendix 3 to the [REDACTED] on the basis that the protections available to our Shareholders under, as the

WAIVERS

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 [REDACTED] 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 1(1), 2(2), 3(1), 4(2), 4(4), 4(5), 5, 12, 13(1) and 14 of Appendix 3 to the [REDACTED] (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 1(1), 2(2), 3(1), 4(2), 4(4), 4(5), 5, 12, 13(1) and 14 of Appendix 3 to the [REDACTED] (given, where applicable, the voluntary measures put in place by us), and any residual difference between our Articles and Appendix 3 to the [REDACTED] are prominently disclosed in this [REDACTED].

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

[REDACTED]

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

[REDACTED]

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Executive Director		
Hisanori TANIGUCHI (谷口久徳) (also known as Mr. JEONG Seonggi [#])	1-14-9 Kuwano Koriyama-shi Fukushima, Japan	South Korean
Independent Non-executive Directors		
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.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor and [REDACTED] Shenyin Wanguo Capital (H.K.) Limited
Level 19
28 Hennessy Road
Hong Kong

[REDACTED]

Legal Adviser to our Company *As to Hong Kong law:*
Deacons
5/F Alexandra House
18 Chater Road
Central
Hong Kong

As to Japan law:
Soga Law Office
2/F Yotsuya Y's Bldg
7-6 Honshiocho
Shinjuku-ku, Tokyo 160-0003
Japan

Legal Adviser to the Sole Sponsor and the [REDACTED] *As to Hong Kong law:*
Paul Hastings
21/F - 22/F Bank of China Tower
1 Garden Road
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Hong Kong

As to Japan law:
Kanagawa International Law Office
6th floor, Burex Toranomon
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Tokyo 105-0001
Japan

Auditor and Reporting Accountant PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

AML Consultant	PricewaterhouseCoopers Limited 22/F, Prince's Building Central Hong Kong
Tax Adviser	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
Independent Property Valuer	DTZ Debenham Tie Leung Limited 16th Floor, Jardine House 1 Connaught Place Central Hong Kong
Compliance adviser	Shenyin Wanguo Capital (H.K.) Limited Level 19 28 Hennessy Road Hong Kong
[REDACTED]	[REDACTED]

CORPORATE INFORMATION

Headquarters in Japan and registered office	1-39 Hohaccho 1-chome, Koriyama-shi Fukushima, Japan
Principal place of business in Hong Kong under Part 16 of the Companies Ordinance	8th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Company website	<u>www.niraku.co.jp</u> <i>(information on this website does not form part of this [REDACTED])</i>
Joint company secretaries	Ms. YIU Wai Man Karen (姚慧敏) (HKICPA) 1/F, Block 3, Lotus Hill 369 Lin Fa Tei Kam Sheung Road Pat Heung, Yuen Long New Territories, Hong Kong Ms. NG Sau Mei (伍秀薇) (ACIS, ACS) 36/F, Tower Two Times Square 1 Matheson Street Causeway Bay, Hong Kong
Authorised representatives	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) (HKICPA) 1/F, Block 3, Lotus Hill 369 Lin Fa Tei Kam Sheung Road Pat Heung, Yuen Long New Territories, Hong Kong
Audit committee	Mr. Hiroaki KUMAMOTO (熊本浩明) (Chairman) Mr. Hiroaki MORITA (森田弘昭) Mr. Norio NAKAYAMA (中山宣男)
Remuneration committee	Mr. Norio NAKAYAMA (中山宣男) (Chairman) Mr. Hiroaki MORITA (森田弘昭) Mr. Hisanori TANIGUCHI (谷口久徳)

CORPORATE INFORMATION

Nomination committee

Mr. Hiroaki MORITA (森田弘昭) (*Chairman*)
Mr. Masaharu TOGO (東郷正春)
Mr. Hisanori TANIGUCHI (谷口久徳)

[REDACTED]

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 960-8633
Japan

INDUSTRY OVERVIEW

This section and other sections of this [REDACTED] 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 [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], or any of their affiliates or advisers, or any other party involved in the [REDACTED], 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 [REDACTED] — Certain statistics, projected industry data and other information relating to the economy and the pachinko industry in Japan contained in this [REDACTED] 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:

											CAGR	
	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	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

INDUSTRY OVERVIEW

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
Monthly disposable income per household (¥)	427,900	430,000	420,500	425,000	426,100	-0.1%
Growth rate of monthly disposable income per household (%)		0.5%	-2.2%	1.1%	0.3%	N/A
Monthly consumption expenditure per household (¥)	319,100	318,300	308,800	313,900	319,170	0.0%
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 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
Total population of the ten prefectures as at 31 December (thousands)	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 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

INDUSTRY OVERVIEW

	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	CAGR	
											2009 - 2013	2014E - 2018E
Total real GDP of the ten prefectures (¥ billion)	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

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.

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.

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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.

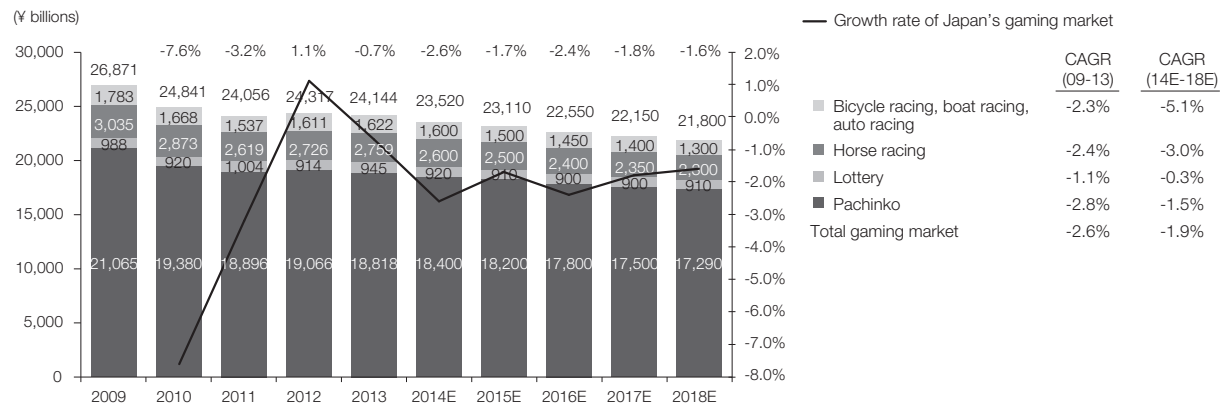
According to EBI, the introduction of legislation reducing the size of jackpots contributed to the decline of gross pay-ins since the early the 2000’s. For example, current laws and regulations restrict the number of pachinko balls that the machine may pay out to between 0.5 to 2.0 times the number of 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.

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

INDUSTRY OVERVIEW

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:

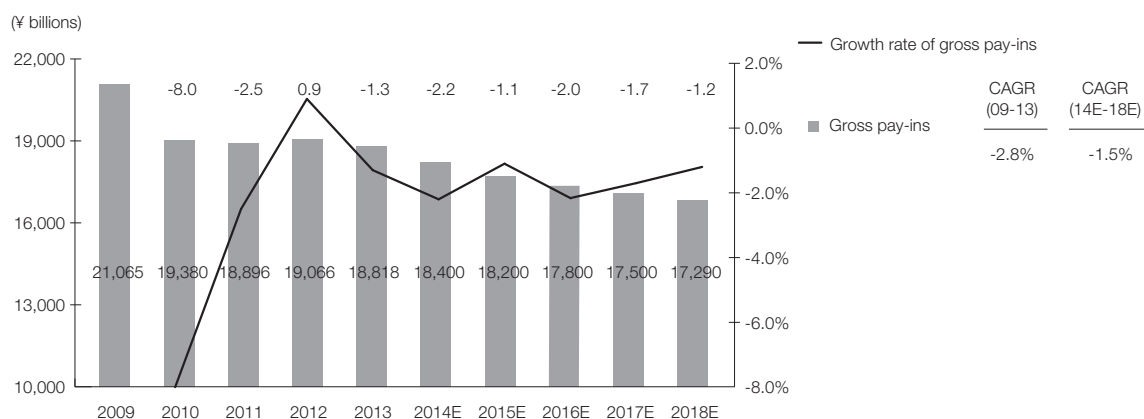


Source: Leisure White Paper 2014 by the Japan Productivity Centre and EBI

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 pachinko industry is expected to continue to decline from 2014 to 2018 with total gross pay-ins declining from approximately ¥18.4 trillion in 2014 to approximately ¥17.3 trillion in 2018.



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

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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	
			%		%		%		%		%		%		%		%		%		%
Small operators																					
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%	
Large operators																					
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%	
Total	<u>4,303</u>	<u>100.0%</u>	<u>4,109</u>	<u>100.0%</u>	<u>4,017</u>	<u>100.0%</u>	<u>3,975</u>	<u>100.0%</u>	<u>3,818</u>	<u>100.0%</u>	<u>3,719</u>	<u>100.0%</u>	<u>3,634</u>	<u>100.0%</u>	<u>3,571</u>	<u>100.0%</u>	<u>3,475</u>	<u>100.0%</u>	<u>3,379</u>	<u>100.0%</u>	
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		3.2		

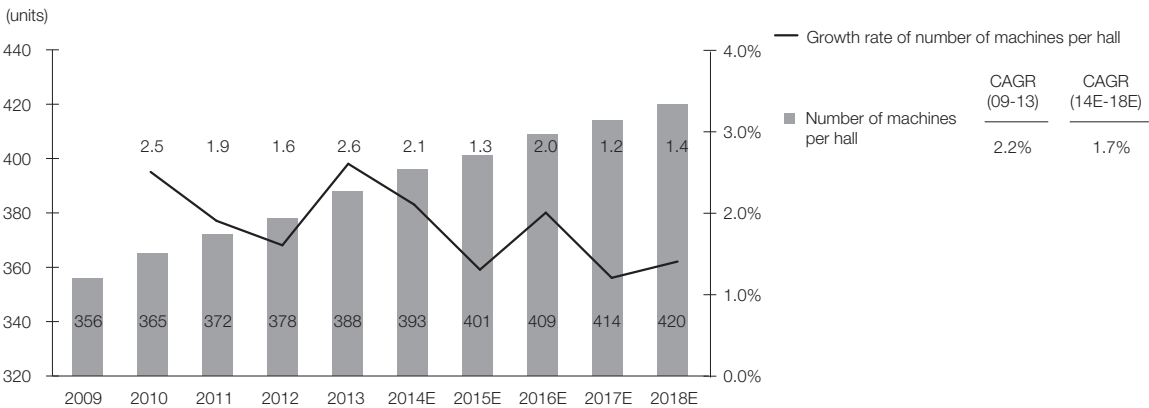
Source: National Police Agency, Daikoku Denki Co., Ltd. and EBI

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

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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

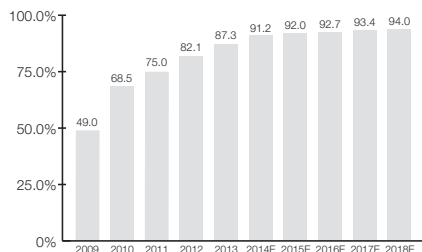
According to EBI, due to the shift in customer's demand to focus more on the entertainment aspect of pachinko and pachislot, low playing cost games have been introduced since 2006. Low playing cost pachinko and pachislot enhances the entertainment value of pachinko and pachislot as they enable lower 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.

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

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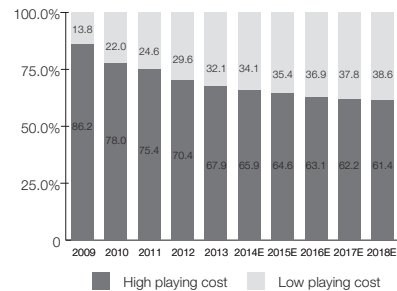
with low playing cost machines and the percentage of low playing machines in the market as at 31 December for the indicated years:

Percentage of halls with low playing cost machines in Japan



Source: EBI

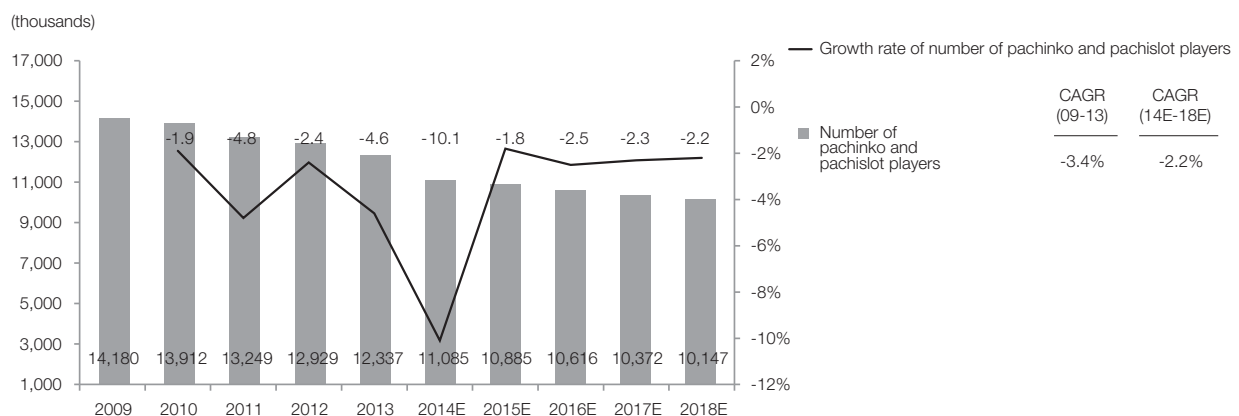
Mix of low and high playing cost machines in Japan



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



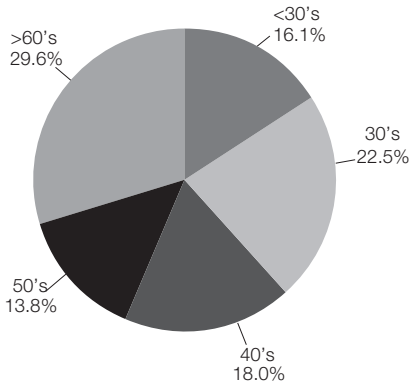
Source: National Police Agency and EBI

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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.

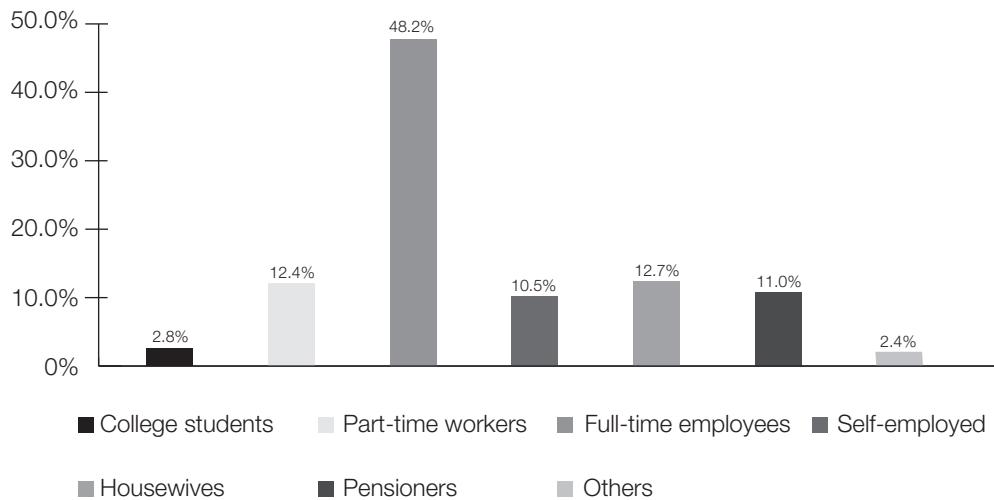
According to EBI, in 2013 approximately 70% of pachinko and pachislot players are male. The majority of pachinko and pachislot players were from the age group of above 60 and 30's, representing 29.6% and 22.5% of the entire pachinko player population, respectively. The diagram below shows breakdowns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



Source: Japan Statistics Bureau and EBI

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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:



Source: EBI

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 8.0% and 9.8% of the total 12,479 operating 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 in operation 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%

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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 in operation 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
9	H	1.0%	29	0.2%	0.6%
10	I	0.8%	28	0.2%	0.3%
Total		25.8%	1,155	9.7%	14.0%

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%
		57	26.4%	36.6%

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.

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”.

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- **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 down 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 ten or over 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.
- **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

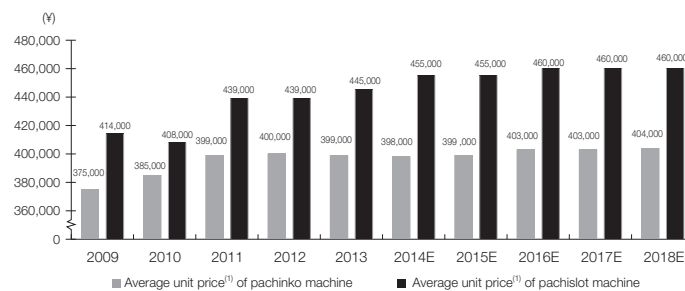
- **Change in policies and regulations relating to the pachinko industry.** Policies and regulations implemented by the Japanese government relating to the pachinko industry may significantly affect customer demand and behaviour as well as the various operating metrics that impact the results of pachinko 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.
- **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.

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- **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.

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 ¥398,000 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 [REDACTED], we have commissioned a research report from EBI for use in part in this [REDACTED] to provide prospective [REDACTED] 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

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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 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.

APPLICABLE LAWS AND REGULATIONS

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 system.
- **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 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 (the “**Constitution**”), 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 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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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, promulgated on 3 November 1946 after the Second World War. The Constitution provides for the separation of the legislative, judicial and executive powers.

The Constitution establishes a parliamentary system of government, where the legislative authority is vested in a bicameral National Diet (国会) (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, Treaties and International Agreements, Acts, Cabinet Orders, Ministry Ordinances and Ministry Notifications.

Under Article 98 of the Constitution, the Constitution 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, the Diet is the highest organ of state power and the sole law-making body. The Diet is made up of two houses, the House of Representatives (*Shugi-in*) and the House of Councillors (*Sangi-in*). 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. 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, 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)

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.

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

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 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, 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.

A person shall not be subject to any criminal liability without procedural due process being observed under the Code of Criminal Procedures. 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

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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 of Japan (民法 Minpo) 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, the General Provisions, Property, Claims, the Family and Inheritance. The parts related to family and succession retain certain vestiges 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 may 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 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; provided, however, that 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 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.

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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 (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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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:

Date	Events
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.
10 July 1948.	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. Therefore, most prefectures began promulgating local regulations prohibiting pachinko halls from:

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Date	Events
	1. providing cash as prizes; 2. repurchasing from customers the prizes provided to them by those pachinko halls (the “Direct Repurchase Regulation”); and 3. causing a third party to repurchase the prizes (the “Indirect Repurchase Regulation”).
10 November 1953.	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”, 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.
1961	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
17 June 1968	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.
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: 1. providing customers with cash or securities as prizes; and 2. repurchasing from customers the prizes provided to them.
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.

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Date	Events
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).

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* (国家公安委員会) (including the National Police Agency);
- the Prefectural Public Safety Commission* (都道府県公安委員会) 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).

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National Public Safety Commission* (國家公安委員会) (including the National Police Agency)

The National Public Safety Commission* (國家公安委員会) 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* (國家公安委員会) 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 released, method of providing prizes, maximum value of prizes offered and the minimum age for playing pachinko.

The National Public Safety Commission* (國家公安委員会) also oversees the National Police Agency, which leads the prefectural police in their implementation of National Public Safety Commission* (國家公安委員会) regulations and policies.

Prefectural Public Safety Commission* (都道府県公安委員会)

Each prefecture has its Prefectural Public Safety Commission* (都道府県公安委員会), which is an administrative commission that supervises prefectural police agencies in their implementation of the National Public Safety Commission* (國家公安委員会) policies and regulations. Each Prefectural Public Safety Commission* (都道府県公安委員会) 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 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.

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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* (都道府県公安委員会) 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* (都道府県公安委員会) to prevent minors from being involved in any “amusement business”.

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.

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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.

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.

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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.

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”.

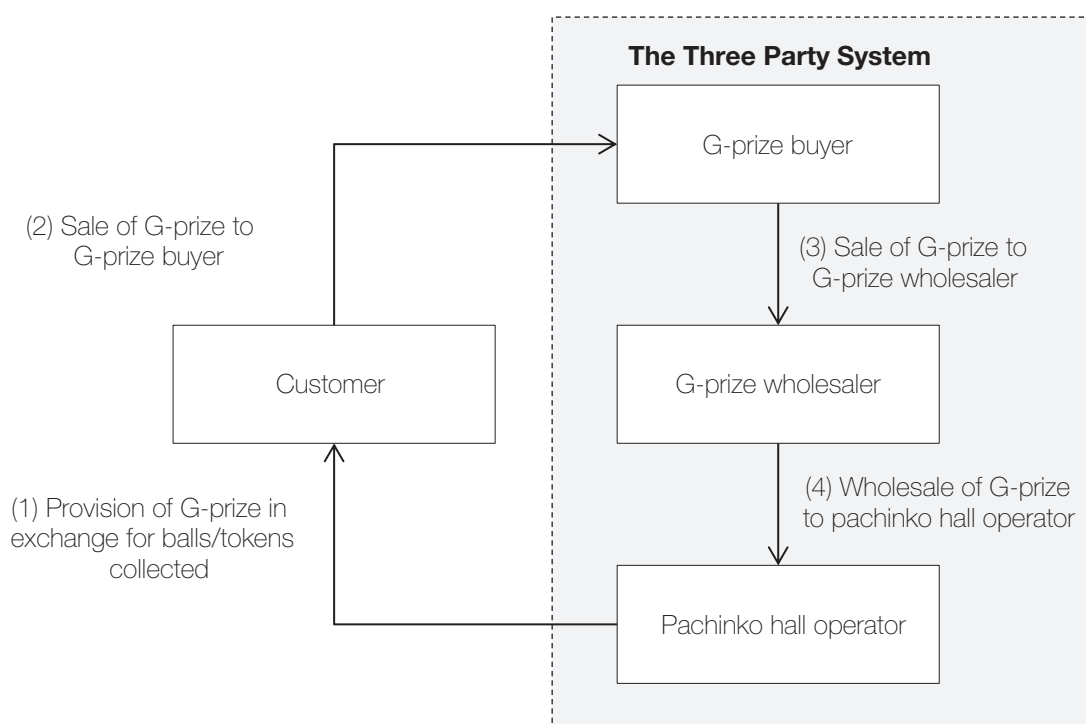
Parties

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.

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



The purchase price for transactions marked (2), (3) and (4) in the above diagram are generally similar. However, 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.

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.

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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 “— 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).

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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;
- 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.

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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 reissue, and to request their G-prize buyers to reissue, 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;
- 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.

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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 “Business — Pachinko and Pachislot Hall Operations — Three Party System — Risk Management”.

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;

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- 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;
- 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;

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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.

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* (都道府県公安委員会) pursuant to the Amusement Business Law.

As at the Latest Practicable Date, we owned 55 halls and had obtained a licence 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* (都道府県公安委員会) 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.

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Conditions

Operating Licences carry certain restrictions. For example, the Prefectural Public Safety Commission* (都道府県公安委員会) 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 “— 2. Pachinko and Pachislot Machine Regulations” in this section below for details.

Also, the Prefectural Public Safety Commission* (都道府県公安委員会) 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 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* (都道府県公安委員会) 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* (都道府県公安委員会) 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

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- the Licence Holder fails to comply with a directive of the Prefectural Public Safety Commission* (都道府県公安委員会) 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.

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 released in various modes of play;
- limitations on the total number of pachinko balls or pachislot tokens that may be released 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.

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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.

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). 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

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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.

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 market value of the prizes offered must also be equivalent to the value of the pachinko balls or pachislot tokens redeemed by the player for 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:

Regional	Numerical Value		
	Daytime ⁽¹⁾	Evening ⁽²⁾	Late Night ⁽³⁾
(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
Areas other than the areas in (1) and (2) above	60 decibels	55 decibels	50 decibels

(1) “Daytime” means sunrise until sunset

(2) “Evening” means sunset until 12:00 a.m.

(3) “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* (都道府県公安委員会), 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) (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 remodelling 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) (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) (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.

Also, the Industrial Safety and Health Act* (労働安全衛生法) (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.

APPLICABLE LAWS AND REGULATIONS

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) (Act No.123 of 1959). Designs are protected by the Design Act* (意匠法) (Act No. 125 of 1959), and trademarks by the Trademark Act* (商標法) (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.

HISTORY AND CORPORATE DEVELOPMENT

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)[#] (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-ins¹), 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 54 pachinko halls that we are today. Set out below are 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 “二楽”, which translates into “*double happiness*” and highlights the importance we place on customer satisfaction.

¹ Represents the amount received from pachinko balls and pachislot tokens rented to customers.

HISTORY AND CORPORATE DEVELOPMENT

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)”, re-opened as an amusement complex where we operated the Koriyama City Hotel (郡山シティホテル) and a café 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

HISTORY AND CORPORATE DEVELOPMENT

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.

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 used as staff dormitory and 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.

HISTORY AND CORPORATE DEVELOPMENT

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.

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.

HISTORY AND CORPORATE DEVELOPMENT

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, we in 2007 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.

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 the Greater Tokyo area 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.

HISTORY AND CORPORATE DEVELOPMENT

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 Business”. 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 November 2014, we added one pachinko hall 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 54 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”.

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 [REDACTED], the members of the Taniguchi Consortium, who are associates of each other under the [REDACTED] and persons acting in concert with each other within the meanings of the [REDACTED], will together control approximately [REDACTED] 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 [REDACTED].

HISTORY AND CORPORATE DEVELOPMENT

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 “— Family Trust Arrangements” in this section below for details. Identities of the members of the Taniguchi Consortium and their respective shareholding interests in our Company as at the date of this [REDACTED] are set out below:

	As at the date of this [REDACTED]		
Name	No. of Shares ⁽¹⁾	Approximate shareholding percentage ⁽⁶⁾	Relationship (for individuals) / Shareholders and voting rights (for corporate entities)
Taniguchi Consortium			
Our Chairman	[42,596,092]	[23.8]%	N/A
Tatsuo TANIGUCHI (谷口龍雄) ⁽²⁾	[40,618,000]	[22.6]%	Brother of Mr. Taniguchi
Masataka TANIGUCHI (谷口晶貴) ⁽³⁾	[29,164,000]	[16.3]%	Brother of Mr. Taniguchi
Yoshihiro TEI (鄭義弘) [#] (also known as JEONG Jungwung) ⁽⁴⁾	[17,388,000]	[9.7]%	Brother of Mr. Taniguchi
Mitsuhiro TEI (鄭允碩) ⁽⁵⁾	[5,497,000]	[3.1]%	Nephew of Mr. Taniguchi
Motohiro TEI (鄭元碩) ⁽⁵⁾	[5,497,000]	[3.1]%	Nephew of Mr. Taniguchi
Eijun TEI (鄭盈順) ⁽⁵⁾	[5,497,000]	[3.1]%	Niece of Mr. Taniguchi
Rika TEI (鄭理香) ⁽⁵⁾	[5,497,000]	[3.1]%	Niece of Mr. Taniguchi
Noriko KANESHIRO (金城徳子)	[2,300,000]	[1.3]%	Sister of Mr. Taniguchi
Jukki Limited* 有限会社十起	[3,864,000]	[2.1]%	33.3% by Ms. Yoshika TEI (鄭淑佳) [#] (also known as Ms. JEONG Sukka) 33.3% by Mr. Kousei TEI (鄭光誠) [#] (also known as Mr. CHONG Gangsong) 33.3% 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

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Name	As at the date of this [REDACTED]		Relationship (for individuals) / Shareholders and voting rights (for corporate entities)
	No. of Shares ⁽¹⁾	Approximate shareholding percentage ⁽⁶⁾	
Densho Limited* 有限会社伝承 . .	[2,300,000]	[1.3]%	25% by Ms. Reika TANIGUCHI (谷口玲華) 25% by Mr. Hidenori TANIGUCHI (谷口秀憲) 25% by Ms. Yuryon TANIGUCHI (谷口有鈴) 25% 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 . .	[2,300,000]	[1.3]%	25% by Mr. Mitsuhiro TEI (鄭允碩) 25% by Mr. Motohiro TEI (鄭元碩) 25% by Ms. Eijun TEI (鄭盈順) 25% 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.
Daiki Limited* 有限会社大喜	[2,300,000]	[1.3]%	50% by Mr. Akinori TEI (鄭敬憲) [#] (also known as JEONG Kyeongheon) 50% by 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), who is entitled to exercise the voting rights as the sole director.

HISTORY AND CORPORATE DEVELOPMENT

Name	As at the date of this [REDACTED]		Relationship (for individuals) / Shareholders and voting rights (for corporate entities)
	No. of Shares ⁽¹⁾	Approximate shareholding percentage ⁽⁶⁾	
Hokuyo Kanko Limited* 有限公司北陽観光	[1,150,000]	[0.7]%	25% by Mr. Tatsunari TANIGUCHI (谷口辰成)[#] (also known as CHONG Jinsong) 25% by Mr. Takanari TANIGUCHI (谷口喆成)[#] (also known as JEONG Cheolseong) 25% by Mr. Toshinari TANIGUCHI (谷口才成) (also known as CHUNG Jaeseong) 25% 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	[276,000]	[0.1]%	33.3% by our Chairman 33.3% by Mr. Masataka TANIGUCHI (谷口晶貴) 33.3% by Mr. Tatsuo TANIGUCHI (谷口龍雄), who is entitled to exercise the voting rights as the sole director
Total:	[166,244,092]	[92.9]%	

Notes:

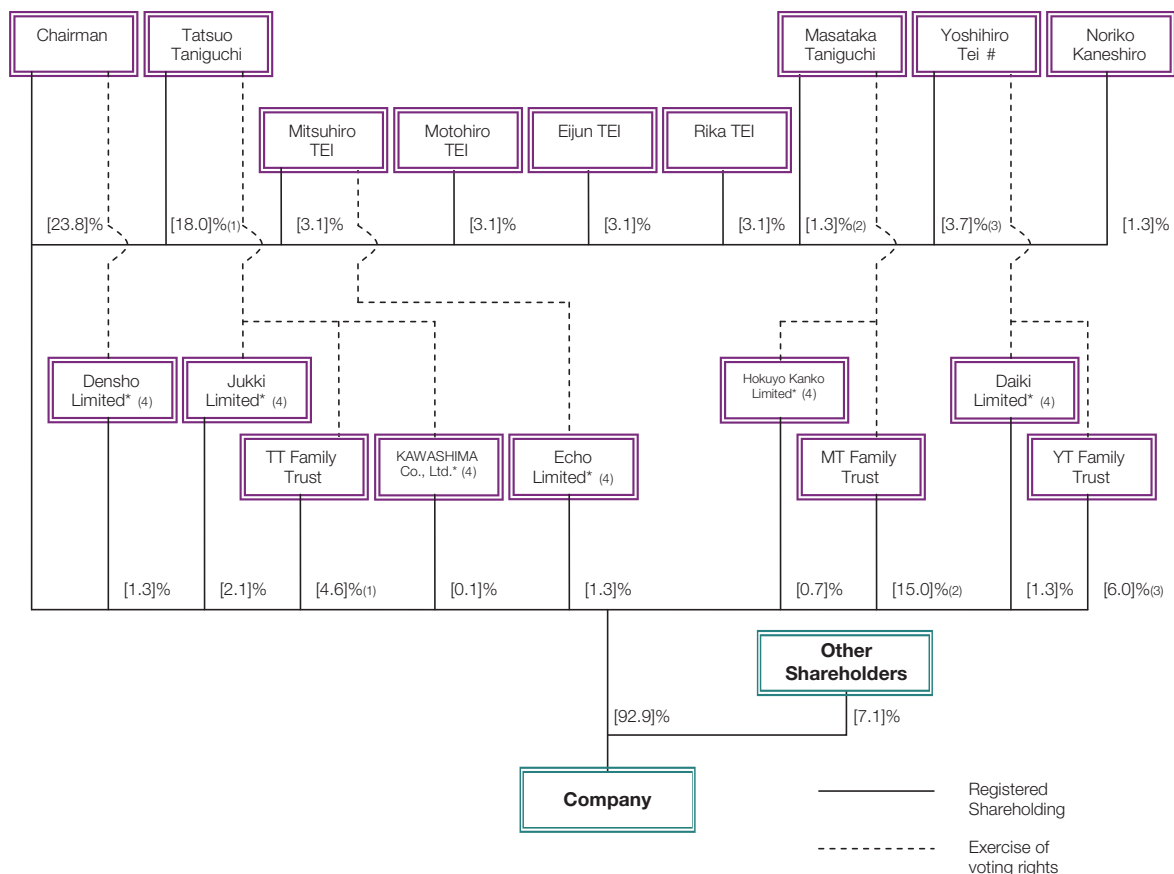
- (1) The numbers of Shares shown above have taken into account the sub-division of Shares approved by our Shareholders on [10 March] 2015, pursuant to which each issued Share of nil par value was sub-divided into [46] Share of nil par value with immediate effect. See “— Corporate Structure and Development — Reorganisation” in this section below for details.
- (2) The [40,618,000] Shares interested by Mr. Tatsuo TANIGUCHI (谷口龍雄) include (i) [32,338,000] Shares (approximately [18.0]% of the total number of Shares issued by our Company as at the date of this [REDACTED]) held in his own name and for his own benefit; (ii) and [8,280,000] Shares (approximately [4.6]% of the total number of Shares issued by our Company as at the date of this [REDACTED]) 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 “— Family Trust Arrangements” in this section below for details.
- (3) The [29,164,000] Shares interested by Mr. Masataka TANIGUCHI (谷口晶貴) include (i) [2,288,500] Shares (approximately [1.3]% of the total number of Shares issued by our Company as at the date of this [REDACTED])

HISTORY AND CORPORATE DEVELOPMENT

held in his own name and for his own benefit; (ii) and [26,875,500] Shares (approximately [15]% of the total number of Shares issued by our Company as at the date of this [REDACTED]) 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 “— Family Trust Arrangements” in this section below for details.

- (4) The [17,388,000] Shares interested by Mr. Yoshihiro TEI (鄭義弘)[#] (also known as JEONG Jungwung) include (i) [6,716,000] Shares (approximately [3.7]% of the total number of Shares issued by our Company as at the date of this [REDACTED]) held in his own name and for his own benefit; (ii) and [10,672,000] Shares (approximately [6.0]% of the total number of Shares issued by our Company as at the date of this [REDACTED]) held by the YT Family Trust for the benefit of his children. Mr. Yoshihiro TEI (鄭義弘)[#] (also known as JEONG Jungwung) is entitled to exercise the voting rights attached to the Shares held by the YT Family Trust. See “— 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 sibling of our Chairman in October 2014.
- (6) Shareholding percentages are approximate and subject to rounding.

Set out below is an illustrative chart of the relationship among the members of the Taniguchi Consortium and their respective shareholding interests in our Company as at the date of this [REDACTED]:-



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.

HISTORY AND CORPORATE DEVELOPMENT

- (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)[#] (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 the preceding pages for the detailed shareholding structure of these corporate entities.
- (5) Shareholding percentages are approximate and subject to rounding.

The shareholding percentage of each member of the Taniguchi Consortium will be diluted by the [REDACTED] newly issued [REDACTED], representing approximately [REDACTED]% of our total number of issued Shares immediately upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), offered under the [REDACTED]. See “— Corporate Structure and Development” in this section below for the shareholding and corporate structure of our Group immediately upon completion of the [REDACTED].

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 [REDACTED]. 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 [REDACTED]. 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)[#] (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)[#] (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) 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* (議決権行使指図権者) of the TT Family Trust;

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- (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)[#] (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) 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* (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
- (b) *the YT Family Trust* - in October 2014, Mr. Yoshihiro TEI (鄭義弘)[#] (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)[#] (also known as JEONG Kyeongheon) and Mr. Masahide TEI (鄭將英)[#] (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)[#] (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)[#] (also known as JEONG Jungwung) (as the case may be) if such transfer or disposal would contravene the [REDACTED].

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 of 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.

HISTORY AND CORPORATE DEVELOPMENT

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.

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. Identities of these Shareholders and their respective shareholding interests in our Company as at the date of this [REDACTED] are set out below:-

As at the date of this [REDACTED]			
Name	No. of Shares ⁽¹⁾	Approximate shareholding percentage ⁽³⁾	Relationship (for individuals) / Shareholders and voting rights (for corporate entities)
Other Shareholders			
Hidenori MOROTA (諸田英模)	[276,000]	[0.1]%	Former Director of our Company; an Executive Officer of our Company; current director of Niraku Corporation
Tadamitsu YAMASHITA (山下忠光)	[276,000]	[0.1]%	Former member of our senior management; not a connected person of our Company
ESOA	[12,374,000]	[6.9]%	No shareholder ⁽²⁾ ; 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 Shareholders on [10 March] 2015, pursuant to which each issued Share of nil par value was sub-divided in into [46] Share of nil par value with immediate effect. 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

HISTORY AND CORPORATE DEVELOPMENT

Rule 14A.07(2) of the [REDACTED] and a core connected person of our Company under Rule 1.01 of the [REDACTED]. As such, the interests held by Mr. Tadamitsu YAMASHITA (山下忠光) and the ESOA will be counted towards the [REDACTED] of our Company upon [REDACTED] for the purpose of Rule 8.08(1)(a) of the [REDACTED].

Employee Stock Ownership Association

The ESOA, established on 16 June 2001 as an employee benefit scheme for our Group’s employees, is administered by a board of administrators* (理事) 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:

Membership and contribution: Membership of the ESOA is open for application by all current employees of our Group only. 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 contribution per month to each member of the ESOA. Save and except for the said special contribution, our Group and our Controlling Shareholders do not owe any obligation to the ESOA and its members.

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 calculate and grant 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 are convertible into Shares or any other form of securities in our Company.

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 [REDACTED] upon [REDACTED], subject to all relevant requirements under the [REDACTED]; or (iii) issue and allotment of new Shares, subject to all applicable laws and regulations in Hong Kong and Japan.

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.

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 him/her. There is no fixed exercise value of the entitlement

HISTORY AND CORPORATE DEVELOPMENT

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.

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 429 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 [REDACTED] of our Company upon [REDACTED] for the purpose of Rule 8.08(1)(a) of the [REDACTED].

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 [REDACTED] 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 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:-

Our Company

Our Company was incorporated on 10 January 2013 in Japan with a core capital* (資本金) of ¥6,600. On incorporation, the number of Shares authorised to be issued by our Company was

HISTORY AND CORPORATE DEVELOPMENT

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 (which will cease to be effective and be replaced by our Articles on the [REDACTED]), transfer of our Shares must be approved by our Board of Directors. Transfer of our Shares will become free of restriction or limitation and shall not require Board or Shareholders approval upon [REDACTED].

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) upon [REDACTED].

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.

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.

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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 [46] Share of nil par value on [10 March] 2015; (ii) the increase of the number of Shares authorised to be issued by our Company to [300,000,000] Shares on [10 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 BANNAL (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 business and are insignificant when compared to our business and financial position as a whole. Under the articles of incorporation 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, 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, 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.

On 10 August 2012, the board of directors of Niraku Corporation have 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

HISTORY AND CORPORATE DEVELOPMENT

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)[#] (also known as Mr. JEONG Jungwung), each being a member of the Taniguchi Consortium, as well as Mr. Tateo TANIGUCHI (谷口建雄), 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 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).

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 of Nexia, transfer of the shares in Nexia must be approved by its shareholders.

HISTORY AND CORPORATE DEVELOPMENT

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), Mr. Minoru NISHINO (西野実) (an independent third party) and Nino Kensetsu Co., Ltd.* 株式会社ニノ建設 (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). 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 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 members of the Taniguchi Consortium. 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.

HISTORY AND CORPORATE DEVELOPMENT

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) (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 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.

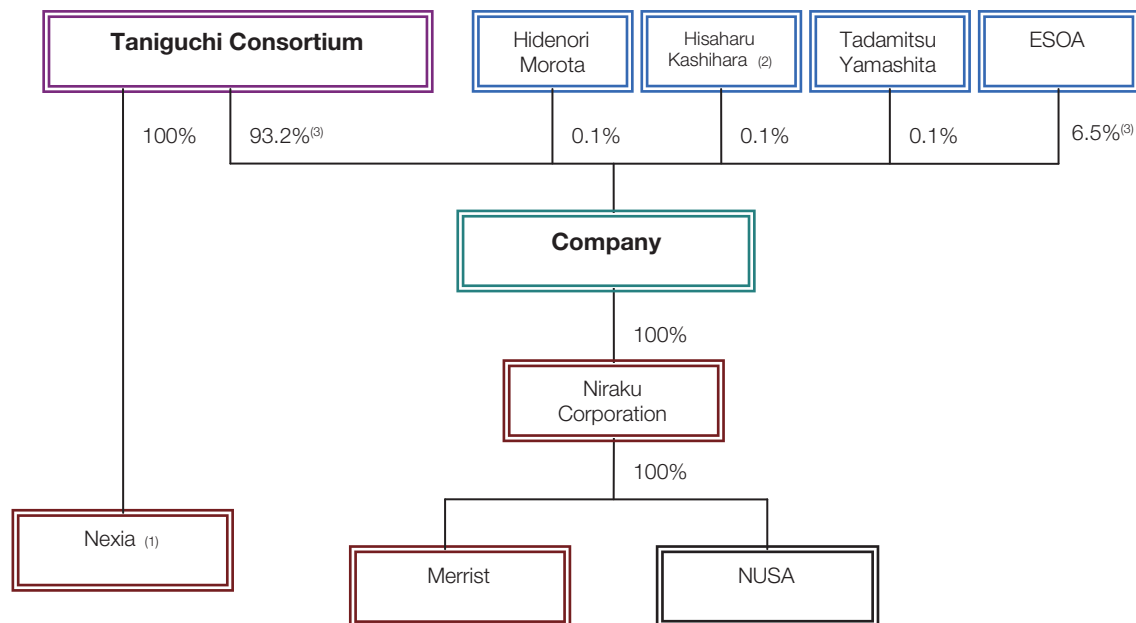
To consolidate the pachinko and pachislot hall operations functions of our Group into Niraku Corporation, we effected an absorption-type merger* (吸収合併) under the Japan Companies Act between Niraku Corporation (as the surviving entity) and Jin Corporation (as the absorbed entity) on 1 October 2013. As 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.

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 [REDACTED] and our potential [REDACTED].

HISTORY AND CORPORATE DEVELOPMENT

Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group’s structure in preparation for the [REDACTED]. Set out below this 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*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.

HISTORY AND CORPORATE DEVELOPMENT

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 (i) the consolidation the business and assets of, and incidental to, our Group’s pachinko and pachislot 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.

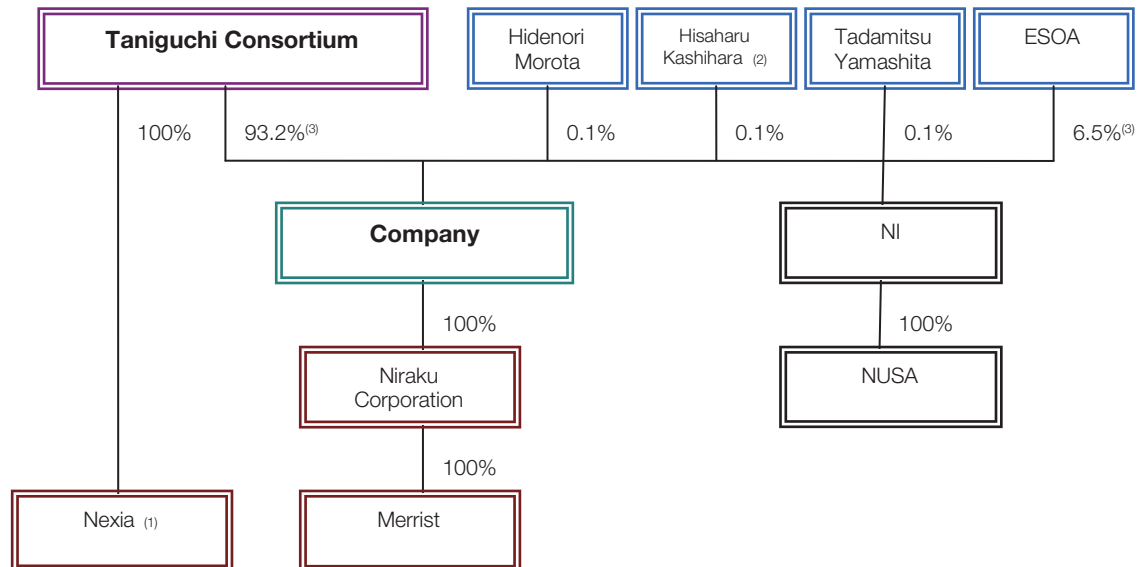
The Company Split was effected as follows:

- (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 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.

HISTORY AND CORPORATE DEVELOPMENT

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. Set out below this 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.

HISTORY AND CORPORATE DEVELOPMENT

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.

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.

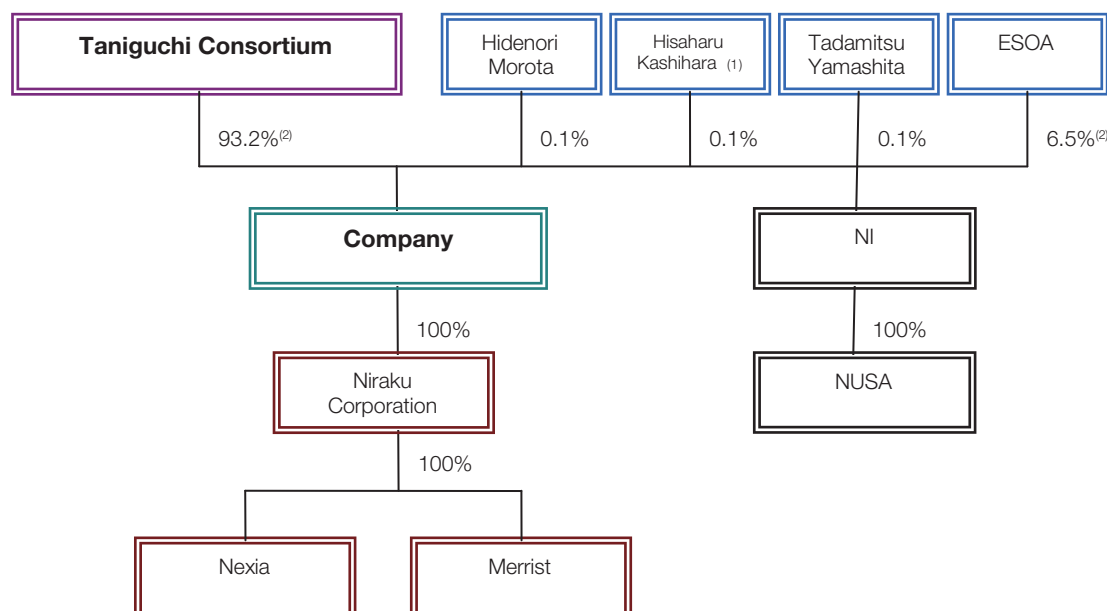
On 29 September 2014, Nexia acquired an aggregate of 2,550 shares in Nexia from Jukki Limited* (有限会社十起), Densho Limited* (有限会社伝承), Hokuyo Kanko Limited* (有限会社北陽観光) and KAWASHIMA Co., Ltd.* (株式会社KAWASHIMA) in consideration for ¥497,344,350 in aggregate. The consideration was calculated based on the valuation 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.

HISTORY AND CORPORATE DEVELOPMENT

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) all required (if any) approvals from and registrations with the relevant Japan authorities have been duly obtained and completed. Set out below is the simplified shareholding and corporate structure of our Group and the Excluded Group immediately upon completion of our Reorganisation:



Notes:

- (1) Mr. Hisaharu KASHIHARA (桒原久治) 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 prospective principal business of which is expected to be 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 prospective business activities of NI and NUSA and the reasons for excluding these companies from our Group.

Further changes to our capital structure

On [10 March] 2015, our Shareholders have resolved that (i) the number of Shares authorised to be issued by our Company be increased from 20,000,000 Shares to [300,000,000] Shares; and (ii) each issued Share of nil par value be sub-divided into [46] Shares of nil par value with immediate effect so that our total number of issued Shares increased from 3,895,002 Shares to [179,170,092] Shares.

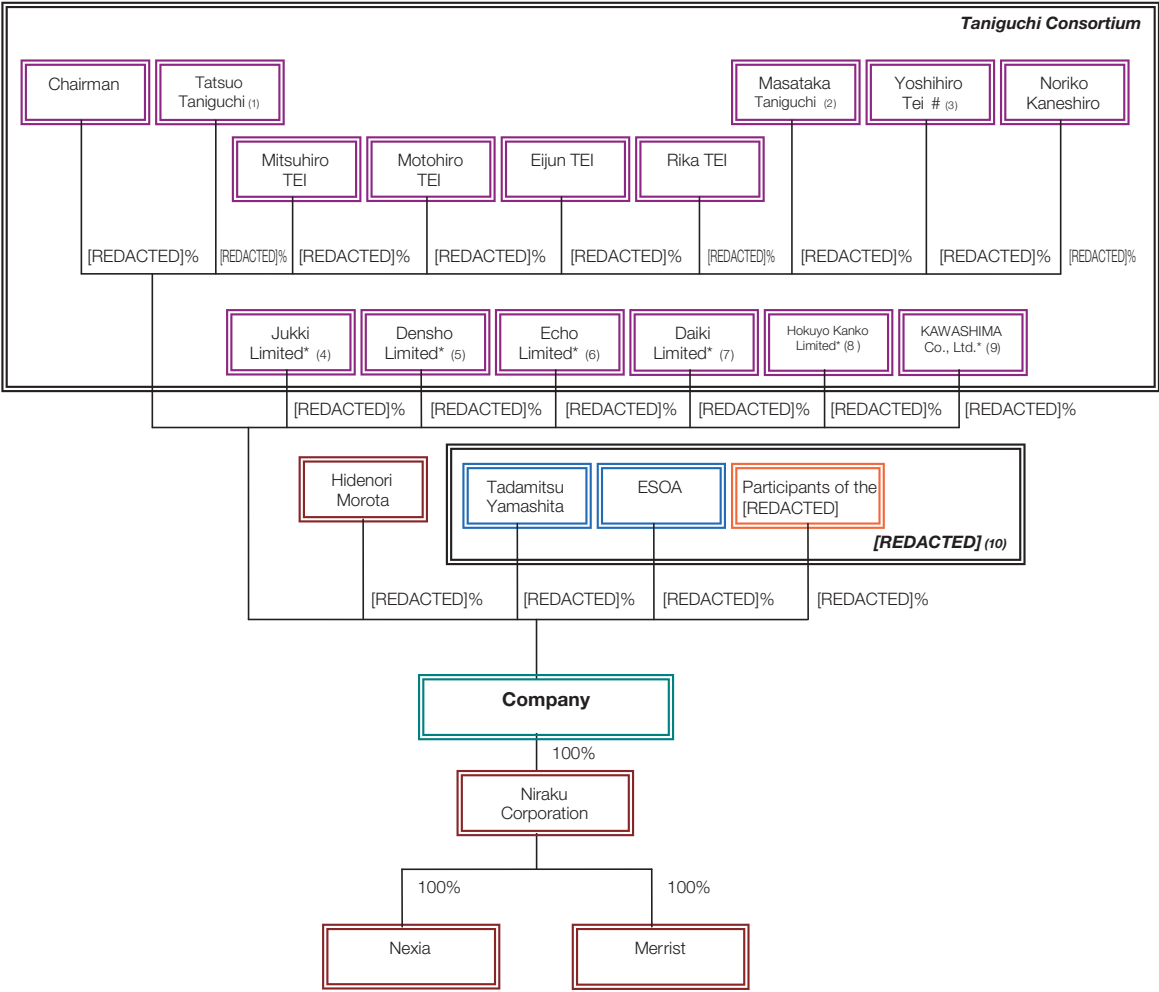
HISTORY AND CORPORATE DEVELOPMENT

No [REDACTED] investment

There was no [REDACTED] investor to our Group before and after our Reorganisation within the meanings of the [REDACTED].

CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately upon completion of the [REDACTED]:



Notes:

- (1) The shareholding percentage of Mr. Tatsuo TANIGUCHI (谷口龍雄) shown above includes [REDACTED]% held in his own name and for his own benefit, and [REDACTED]% 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 [REDACTED]% held in his own name and for his own benefit, and [REDACTED]% held by the MT Family Trust, to which he is entitled to exercise the voting rights attached.

HISTORY AND CORPORATE DEVELOPMENT

- (3) The shareholding percentage of Mr. Yoshihiro TEI (鄭義弘)[#] (also known as JEONG Jungwung) shown above includes [REDACTED]% held in his own name and for his own benefit, and [REDACTED]% 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)[#] (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. Tadamitsu 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 [REDACTED]. Hence, the Shares held by Mr. Tadamitsu YAMASHITA (山下忠光) and the ESOA are counted towards the [REDACTED] of our Company for the purpose of Rule 8.08(1)(a) of the [REDACTED].
- (11) Shareholding percentages are approximate and subject to rounding.

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OVERVIEW

We operate pachinko halls 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-ins¹), 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, 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%, 89.8%, 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 peak operation hours are typically from noon to 5:00 p.m.. These halls are generally larger with around 400 to 700 machines.
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 peak operation hours are typically from 5:00 p.m. to 10:00 p.m.. These halls are generally smaller with around 200 to 300 machines.

¹ Represents the amount received from pachinko balls and pachislot tokens rented to customers.

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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 54 pachinko halls, consisting of 45 suburban halls and 9 urban halls, as at the Latest Practicable Date.

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 85.8% 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.

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 85.8% were small hall operators with less than 10 halls and we were one of the only six hall operators with over 50 halls. As at the Latest Practicable Date, we operated 54 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 conjoining 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

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significant operational efficiencies and cost savings, especially as our fixed overhead is shared among our 54 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 54 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 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 54 hall managers (each responsible for overseeing the daily

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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.

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 released by 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.

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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 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)[#] (also know 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・トラステイ・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.

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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 [REDACTED] company on the [REDACTED].

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: (1) we have a proven track record, as shown by our leading market position, in successfully operating and expanding our suburban hall operations in 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; (2) land costs (whether for acquisitions or leases) in suburban areas is lower than urban areas (which has allowed us to open relatively large halls which are usually more attractive to customers); (3) there are significantly more entertainment options in urban areas, such as cinemas, horse-racing and nightlife entertainment, which increases competition for pachinko hall operators; and (4) 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, thus, the peak hours of our urban halls are usually limited to after-office hours. 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,

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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 hall 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.

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

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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 are loss-making and have a negative cash inflow 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). We believe these two halls show insufficient potential in generating positive financial results in the future. We also anticipate the need to close down a third hall, also in Tokyo (東京都), by the end of 2015, purely due to city planning by the government of Tokyo (東京都) and we expect to receive full compensation from them for the closure of this hall. 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.

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 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 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 280 to 1,400 types (depending on the size of the hall) of daily convenience store goods.

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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).

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.

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PACHINKO AND PACHISLOT HALL OPERATIONS

Our primary business has always been our pachinko and pachislot hall operations^{Note}. As at the Latest Practicable Date, we operated 54 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 30 September	As at the Latest Practicable Date
	2012	2013	2014	2014	
Suburban	42	43	44	44	45
Urban	8	9	9	9	9
Total	50	52	53	53	54

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
Revenue from pachinko and pachislot hall operations	30,352	100.0	32,667	100.0	33,698	100.0	16,354	100.0	15,492	100.0

Note: 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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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 ⁽¹⁾	224,968	242,217	236,449	120,674	90,989
Less: Gross payouts ⁽²⁾	(195,340)	(210,298)	(203,455)	(104,682)	(75,798)
Revenue from pachinko and pachislot business ⁽³⁾	<u>29,628</u>	<u>31,919</u>	<u>32,994</u>	<u>15,992</u>	<u>15,191</u>

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

(2) Represents the aggregate cost of G-prizes and general prizes exchanged by customers and unutilised balls and tokens. See “Appendix I — Accountant’s Report”.

(3) Represents gross pay-ins less gross payouts.

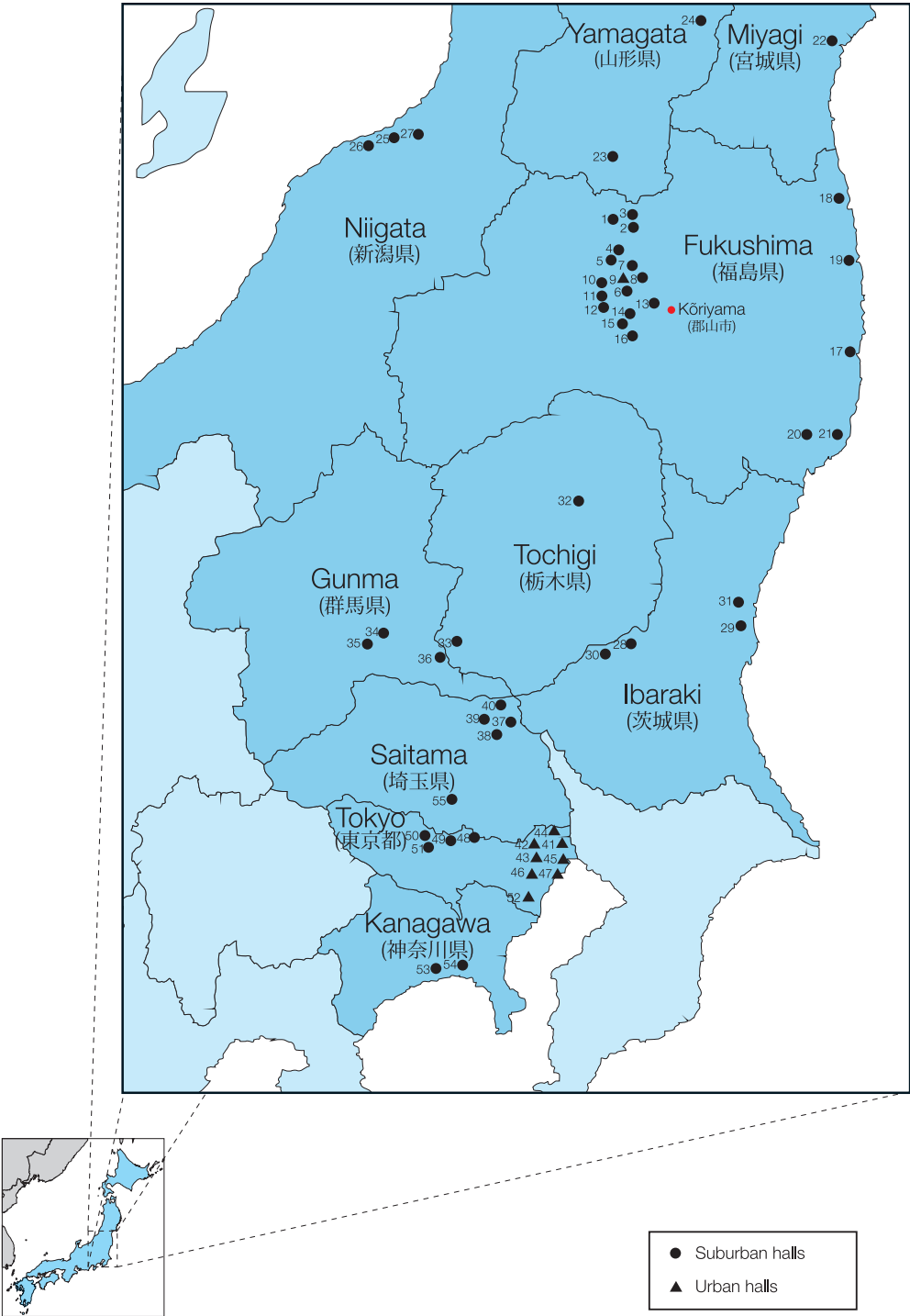
Geographical Focus in Northeast Honshu (本州島東北)

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
Tōhoku Region (東北地方)			
Fukushima Prefecture (福島県)	19	1	20
Miyagi Prefecture (宮城県)	1	—	1
Yamagata Prefecture (山形県)	2	—	2
Kantō Region (関東地方)			
Tokyo (東京都)	4	8	12
Gunma Prefecture (群馬県)	3	—	3
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
Chūbu Region (中部地方)			
Niigata Prefecture (新潟県)	3	—	3
Total	45	9	54

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
Total population of the ten prefectures as at 31 December (thousands)	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
Total real GDP of the ten prefectures (¥ billion)	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 operation 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 with the operator of the affected nuclear plants, Tokyo Electric Power Company, Incorporated* (東京電力株式会社), who compensated us in the amount of around ¥590 million during the six months ended 30 September 2014 for our loss incurred during the one-year period after the Great East Japan Earthquake. Our Directors are considering the most appropriate method to obtain compensation for subsequent years. Aside from this permanently closed hall, none of our operating halls is within the exclusion zone implemented by the Japanese government.

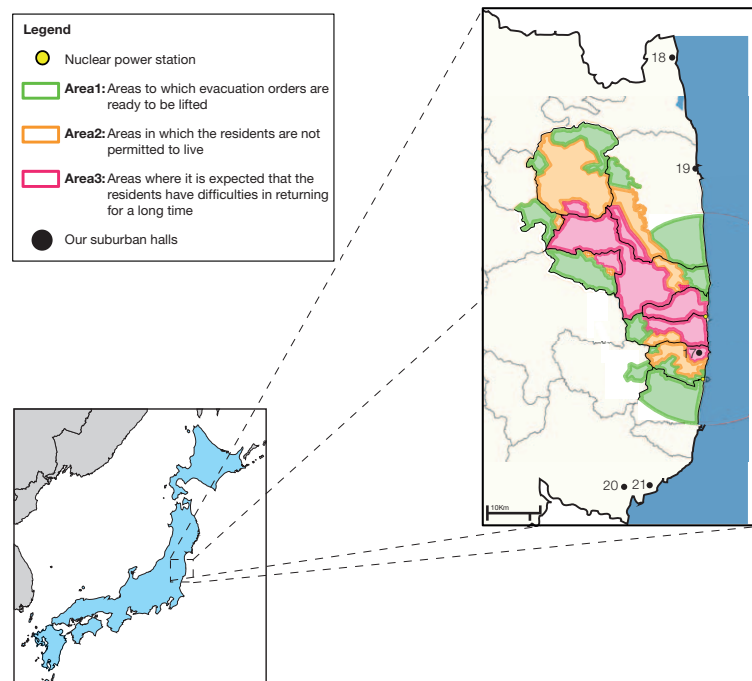
Exclusion zones stipulated by the Ministry of Economy, Trade and Industry of Japan (経済産業省)

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 1 April 2013 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.

We only owned 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).

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The below map shows the coverage of these three exclusion zones, including the location of our halls in Fukushima Prefecture (福島県):



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

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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.

	Before the Great East Japan Earthquake	After the Great East Japan Earthquake		
	31 December 2010	31 December 2011	31 December 2012	31 December 2013
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 13.7%. 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 during the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively.

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 halls². For example, for ¥1,000, a customer may obtain 250 ¥4 pachinko balls to play or 50 ¥20 pachislot tokens to play.

² 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, ¥1.25, ¥2.16 and ¥4.32, while playing costs for pachislot machines are ¥2.18, ¥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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To obtain these balls or tokens, customers may either: (1) pay with cash; (2) pay with a pre-paid IC card; or (3) use their membership cards to access any carried-over balls or tokens (stored on our IT servers). See “— Marketing and Market Research — Membership system” in this section below for details on our membership cards. All cash stored on the pre-paid IC card (up to a maximum of ¥10,000 per card) will be forfeited 21 days after the purchase. Customers do not need to present identification documents when purchasing pre-paid IC cards. For more information on unused amounts on pre-paid IC cards, see “Financial Information — Results of Operations of our Group — Description of Components of Results of Operations — Gross pay-ins”.

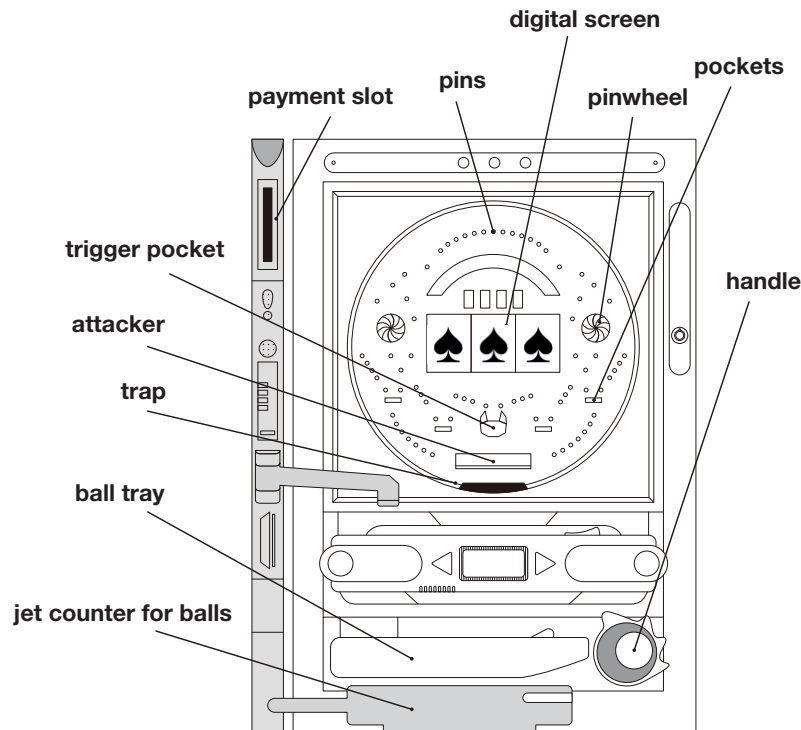
The number of our pachinko halls has grown during the Track Record Period, which also meant a corresponding increase in the number of our pachinko and pachislot machines. The table below shows the number of our pachinko and pachislot machines as at the indicated dates:

		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	7,321	30.7	7,981	31.7	8,313	32.1	8,542	32.7	
Total	23,872	100.0	25,141	100.0	25,888	100.0	26,104	100.0	

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2. *Playing pachinko or pachislot*

Pachinko



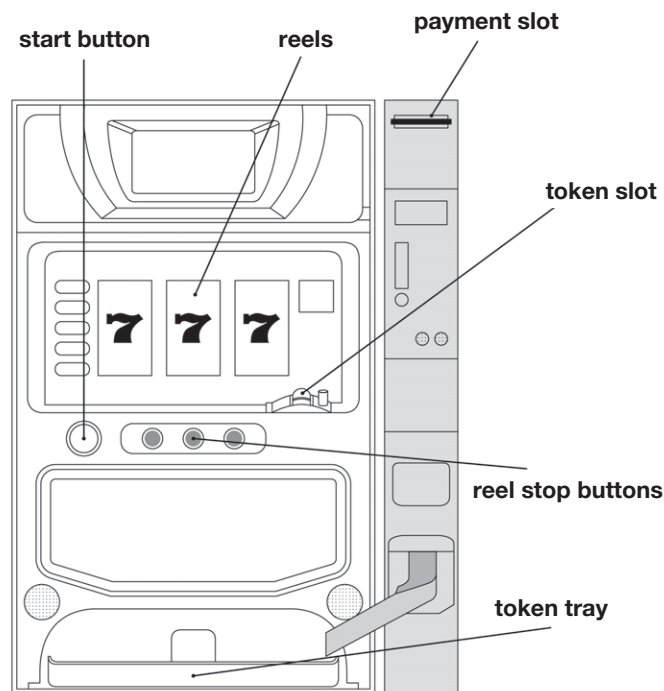
A pachinko machine resembles a vertical pinball machine (but without pinball flippers and with a large number of playing balls). The objective is to collect as many pachinko balls as possible, in order to exchange them for prizes in our halls. Upon inserting cash, a pre-paid IC card or the membership 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.

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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, a pre-paid 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.

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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 tokens required to collect a general prize exceeds that of our purchase price for such general prize. During the Track Record Period, the general prize (excluding our private brand products) mark-up ranged from 18 to 25%, while the private brand average product mark-up was higher, ranging from 43 to 46%.

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.

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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 of our purchase price for such G-prize. During the Track Record Period, the G-prize mark-up ranged from approximately 0% to 20%.

G-prizes make up the vast majority of prizes redeemed 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 ^(Note)	39	0.0	21	0.0	(105)	0.0	16	0.0	296	0.4
Total	195,340	100.0	210,298	100.0	203,455	100.0	104,683	100.0	75,798	100.0

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”.

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.

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”.

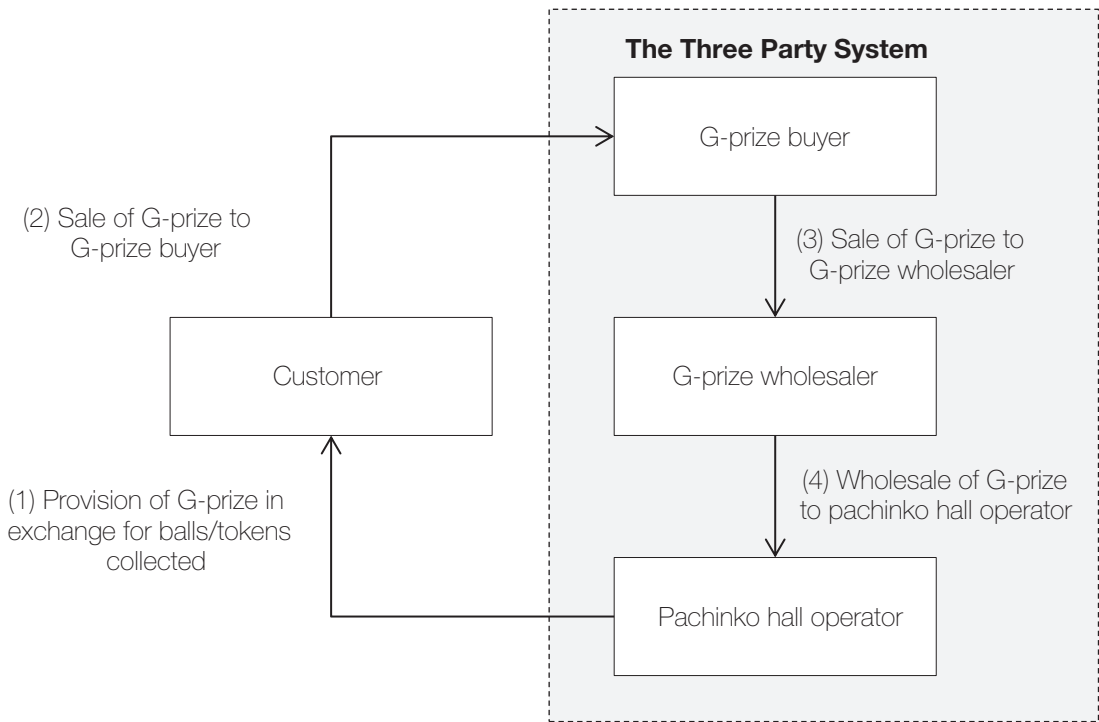
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Parties

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:



The purchase price for transactions marked (2), (3) and (4) in the above diagram are generally similar. However, 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.

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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;
- 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

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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 reissue, and to request their G-prize buyers to reissue, 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;
- 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;

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- 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;
- 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;

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- 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 at 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%, 87.9%, 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 peak operation hours are typically from 12:00 noon to 5:00 p.m.. These halls are generally larger with around 400 to 700 machines.
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 peak operation hours are typically from 5:00 p.m. to 10:00 p.m.. These halls are generally smaller with around 200 to 300 machines.

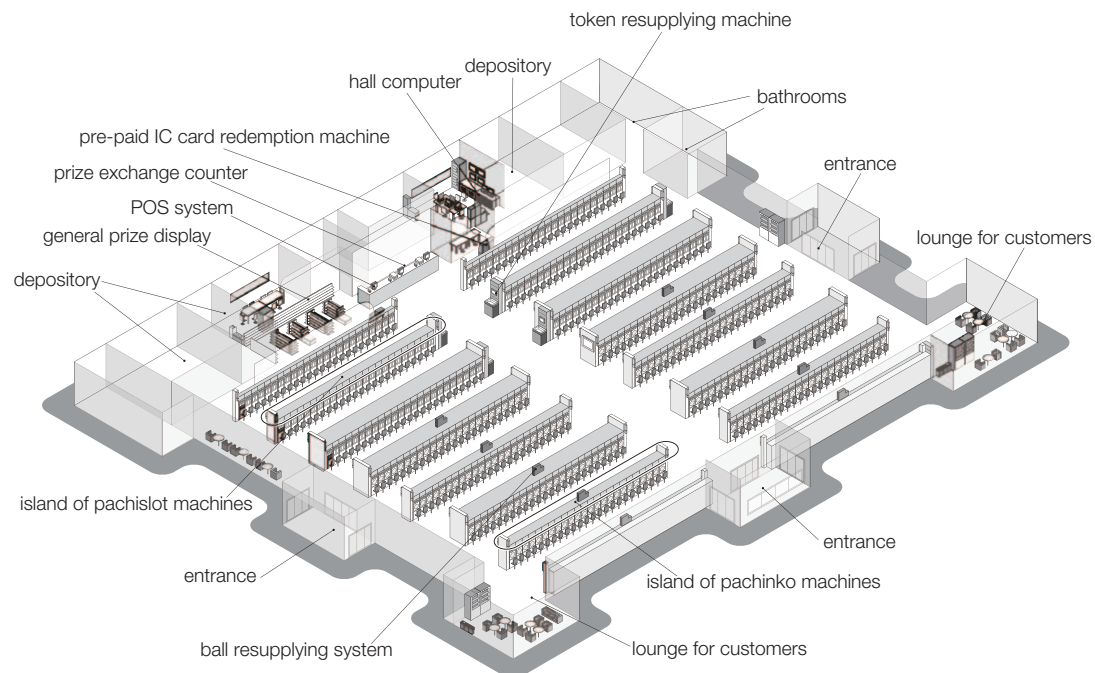
Some additional typical characteristics of our halls are:

- 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).

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.

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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 each island that can perform the same function. There are also pre-paid IC card machines at the end of these islands.

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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	
Halls at the beginning of the period					
Suburban halls	40	42	43	44	44
Urban halls	8	8	9	9	9
Total	48	50	52	53	53
Halls newly opened during the period					
Suburban halls	2	1	1	—	1
Urban halls	—	1	—	—	—
Total	2	2	1	—	1
Halls at the end of the period					
Suburban halls	42	43	44	44	45
Urban halls	8	9	9	9	9
Total	50	52	53	53	54

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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
Suburban halls				
Pachinko	357	360	361	361
Pachislot	162	170	174	178
Total	519	529	534	539
Urban halls				
Pachinko	196	188	188	185
Pachislot	64	75	75	79
Total	260	264	264	264

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
	%	%	%
Pachinko⁽¹⁾			
High playing cost ⁽²⁾	57.9	50.9	57.2
Low playing cost ⁽³⁾	42.1	49.1	42.8
Total	100.0	100.0	100.0
Pachislot⁽¹⁾			
High playing cost ⁽⁴⁾	83.5	89.5	84.0
Low playing cost ⁽⁵⁾	16.5	10.5	16.0
Total	100.0	100.0	100.0

(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, ¥1.25, ¥2.16, ¥2.18 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)										
Gross pay-ins⁽¹⁾										
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
Total	224,968	100.0	242,217	100.0	236,449	100.0	120,674	100.0	90,989	100.0
Revenue from pachinko and pachislot business⁽²⁾										
Suburban halls	27,113	91.5	29,342	87.9	30,452	92.3	14,727	92.1	13,968	91.9
Urban halls	2,515	8.5	2,577	12.1	2,542	7.7	1,265	7.9	1,223	8.1
Total	29,628	100.0	31,919	100.0	32,994	100.0	15,992	100.0	15,191	100.0

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

(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 for the indicated periods:

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	%	%	%	%	%
Suburban halls	13.1	13.1	13.9	13.2	16.6
Urban halls	13.6	14.5	15.0	14.0	17.9
Overall	13.2	13.2	14.0	13.3	16.7

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.

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As stated above, our revenue from pachinko and pachislot business represents gross pay-ins (amount received from balls and tokens rented to customers, less unutilised balls and tokens) less gross payouts (aggregate cost of prizes exchanged by customers).

Gross pay-ins is affected by the number of machines and halls in operation, the number and playing time of customers and also playing costs of machines. On the other hand, gross payouts is largely determined by G-prize markups and payout ratios. Payout ratios are 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 number of balls or tokens won from hitting a jackpot, 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 metrics mentioned above, payout ratios is the one 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.

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

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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

After ensuring such full and consistent compliance with the required ranges on payout ratios under law, we 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 setting (for pachislot machines) or maintain the pins in strict compliance with applicable laws (for pachinko machines) in such a way that maximises our revenue from pachinko and pachislot business by obtaining a balance between player traffic 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.

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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 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.

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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 ¹
		2016	2017	2018	
Tohoku region (東北地方)					
Fukushima Prefecture (福島県)	20	1	1	1	23
Miyagi Prefecture (宮城県).	1	—	—	—	1
Yamagata Prefecture (山形県)	2	—	—	—	2
Kantō region (関東地方)					
Tokyo (東京都)	12	-3	—	—	9
Gunma Prefecture (群馬県)	3	1	—	—	4
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
Chūbu region (中部地方)					
Niigata Prefecture (新潟県)	3	—	—	—	3
Total	54	0	+2	+2	58

Our plans for expansion are based on various assumptions, including: (1) industry trends continuing to develop as we anticipate; (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.

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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 ¥1.2 million to ¥4 million, payable upon the commencement of the installation period; and (2) ranging from approximately ¥0.1 million to ¥2 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.

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.

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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. 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.

	Year ended 31 March						Six months ended 30 September	
	2012		2013		2014		2014	
	(in millions, except for percentages)							
	¥	%	¥	%	¥	%	¥	%
Cost of machine								
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
Total	7,161	100.0	7,948	100.0	8,216	100.0	4,482	100.0

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.

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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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* (遊戯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.

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

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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.

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

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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 [REDACTED]) 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 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 238,939 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

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enhances the public image of our brand as a socially responsible enterprise. During the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, our expenses on corporate social responsibility related activities 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 60 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 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.

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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 the 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.

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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”.

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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	[REDACTED] 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 the contemplated legislation is 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:

Function	As at 30 September 2014
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
Total	1,409

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 54 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 29 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 and via an online job database (for full-time employees), and flyers and posters (for part-time employees). We believe our continuous efforts will help us attract suitable personnel.

In addition, in 2012, 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 60 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 806,000 sq.m. in aggregate. Among these property interests, approximately 87,000 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 [REDACTED]) (the “*Operational Premises*”). The remaining approximately 719,000 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 87.7% of our Operational Premises are used as pachinko halls. As at the Latest Practicable Date, we operated 54 pachinko halls, all of which were located in Northeast Honshu (本州島東北). 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 office in Tokyo (東京都) and the premises housing our “LIZARRAN” restaurant are leased properties.

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Property activities

Our property activities (within the meanings of the [REDACTED]) 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. The market value of these properties as determined by our independent Property Valuer, DTZ Debenham Tie Leung Limited, was less than 5% of our total property interests as at 31 October 2014. See “Appendix III — Valuation Report on Selected Property Interests” for the full-text valuation report prepared by our Property Valuer as a voluntary disclosure for our potential [REDACTED].

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 56.3% of our Operational Premises are self-owned properties. The table below sets forth a summary of our self-owned Operational Premises:-

Hall Numbers⁴	Pachinko halls		Approximate Gross Floor Area^{1 and 2}
	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, Koriyama-shi	Pachinko hall	1,929
9	Ekimae, Koriyama-shi ³	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 ⁴	Pachinko halls		Approximate Gross Floor Area ^{1 and 2}
	Location	Uage	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 [REDACTED])

Ekimae, Koriyama-shi	Hotel and Ekimae hall ³	3,273
Ekimae, Koriyama-shi	Offices for lease	2,699
Oomorinishi, Tokyo	Apartment units for lease	264

Note:

1. Includes Operational Premises only.
2. The attributable interests of our Group in the properties listed above are 100%.
3. 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.
4. 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 43.7% of our Operational Premises are 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 ³	Location	Usage	Approximate Gross Floor Area ^{1 and 2}
			Total (sq.m.)
4	Jotake, Nihonmatsu-shi	Pachinko hall	1,523
5	Motomiya, Motomiya-shi . . .	Pachinko hall	1,301
7	Hiwadamachi, Koriyama-shi .	Pachinko hall	1,422
11	Shima, Koriyama-shi	Pachinko hall	959
14	Minami, Koriyama-shi	Pachinko hall	1,172
18	Babano, Soma-shi	Pachinko hall	1,389
19	Haramachi-ku, Minamisoma-shi	Pachinko hall	1,513
22	Taihaku-ku, Sendai-shi	Pachinko hall	2,161
25	Higashi-ku, Niigata-shi	Pachinko hall	1,393
28	Tomado, Chikusei-shi	Pachinko hall	1,398
29	Edakawa, Hitachinaka-shi . .	Pachinko hall	1,464
34	Amagawaoshimamachi, Maebashi-shi	Pachinko hall	1,932
37	Atago, Kazo-shi	Pachinko hall	1,839
38	Fukai, Kitamoto-shi	Pachinko hall	1,606
39	Nakai, Konosu-shi	Pachinko hall	2,055
41	Nakano-ku, Tokyo	Pachinko hall	852
43	Nakano-ku, Tokyo	Pachinko hall	385
44	Nakano-ku, Tokyo	Pachinko hall	628
46	Ota-ku, Tokyo	Pachinko hall	434
47	Ota-ku, Tokyo	Pachinko hall	362
48	Tateno, Higashiyamato-shi . .	Pachinko hall	1,951
49	Kamikitadai, Higashiyamato-shi	Pachinko hall	1,470
50	Mizuhomachi, Nishitama-gun, Tokyo	Pachinko hall	1,262
51	Inadaira, Musashimurayama-shi, Tokyo	Pachinko hall	1,465
52	Ota-ku, Tokyo	Pachinko hall	884
54	Hongo, Ebina-shi	Pachinko hall	2,103
55	Shinkou, Iruma-shi	Pachinko hall	2,467
Total¹: 27			
Others			
	Minato-ku, Tokyo	Restaurant	308
	Minato-ku, Tokyo	Office	243

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.

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2. The attributable interest of our Group in the above listed properties is 100%.
3. 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.

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.

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 demolition costs of these buildings range from approximately ¥3.9 million to ¥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 ¹				
	Self-owned Operational Premises			Leased Operational Premises	
	Owned building and partially			Leased building and partially	
	Owned building and	owned (and partially	Owned building and	Leased building and	owned (and partially
	owned land	leased) land	leased land	leased land	leased) land
Pachinko halls.	6	13	8	26	1

Note:

1. 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 contracts for our pachinko halls operated on leased land consist of two types, namely (1) fixed term lease contract and (2) standard lease contract.

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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.

The earliest expiration date of the lease contracts for 48 of our pachinko halls with leased land components is in 2015. The table below summarises the type of lease contracts for the 48 pachinko halls as at the Latest Practicable Date:-

Year of expiry of land lease contract	Number of pachinko halls ¹			
	Fixed term lease (land components)	Fixed term leases (land and building components)	Standard lease	Total
By 2015	—	—	4	4
2016-2020	—	1	11	12
2021-2025	4	4	11	19
2026-2030	3	—	5	8
2031-2035	1	1	1	3
No expiry date	—	—	2	2
Total	<u>8</u>	<u>6</u>	<u>34</u>	<u>48</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.

As at the Latest Practicable Date, save as disclosed in this [REDACTED], 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.

INTELLECTUAL PROPERTY

Our Group’s brand name, particularly our traditional “NIRAKU” brands, are valuable assets for our Company and operations.

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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  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 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”.

BUSINESS

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) 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 October 2014 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 until 2013.

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:

Parties

- (1) Comess Group, as franchisor and legal owner of the “Lizarran” trademark (a Spanish restaurant); and
- (2) Niraku Corporation, as franchisee

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Licence	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
Restaurant openings	Niraku Corporation must open at least 20 restaurants by 2028, with at least one new restaurant per year
Term	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)
Fees/Royalties	Niraku Corporation shall pay to Comess Group: • initial licence fee - €250,000 (equivalent to approximately HKD3.04 million) • royalties - 2.25% of Niraku Corporation’s net sales, payable monthly

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.

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 USD500,000.

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

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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 55 halls and had obtained a licence for each of these halls, each of which is currently valid.

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 the 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.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

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

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

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 (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 released by our

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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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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

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

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 Company’s 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 Company’s 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 without playing shall be investigated and, 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. Our Company may request such person to immediately leave the premises and refuse the exchange of rent balls earned without playing;

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

- 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.
- 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

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

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・トラステイ・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 pre-paid 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.

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You should read the following discussion and analysis of our financial condition and results of operations together with the financial information as of and for each of the three years ended 31 March 2012, 2013 and 2014 and 30 September 2014 and the accompanying notes included in the accountant’s report set out in Appendix I to this [REDACTED]. 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 [REDACTED] 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 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, 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 54 halls, consisting of 45 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 percentage)												
		%		%		%		%		%		%
Suburban	42	84.0	43	82.7	44	83.0	44	83.0	44	83.0	45	83.3
Urban	8	16.0	9	17.3	9	17.0	9	17.0	9	17.0	9	16.7
Total	50	100.0	52	100.0	53	100.0	53	100.0	53	100.0	54	100.0

For the year 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 the Company amounted to ¥3,329 million, ¥3,765 million, ¥3,698 million and ¥937 million, respectively.

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FINANCIAL METRICS OF OUR BUSINESS

The following are the financial metrics that are key to understanding our results of operations:

Revenue	our total revenue, being revenue from pachinko and pachislot hall operations, together with revenue from hotel operations
Revenue from pachinko and pachislot hall operations	revenue from pachinko and pachislot business, together with the revenue from vending machines
Revenue from pachinko and pachislot business	gross pay-ins less gross payouts
Gross pay-ins	amount received from pachinko balls and pachislot tokens
Gross payouts	aggregate costs of G-prizes and general prizes exchanged by customers, taking into consideration prize mark-ups and the value of any unutilised balls and tokens
Revenue margin	gross pay-ins less gross payouts, divided by gross pay-ins
Payout ratio (of each machine)	total number of balls or tokens released divided by the total number of balls or tokens played*
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
Machine utilisation (of each machine)	ratio of the number of balls or tokens played per day against the maximum number of balls or tokens allowed to be played under law
Jackpot probability (of each machine)	probability of triggering the jackpot mode, during which a relatively large number of balls and tokens may be released
Jackpot size	number of balls or tokens that will be released when a jackpot is hit during the jackpot mode

* As advised by our Japan Legal Adviser, our payout ratios have been maintained in full compliance with applicable laws and regulations. See “Business — Pachinko and Pachislot Hall Operations — Pachinko Halls — Machine maintenance and the business performance of our halls”.

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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
Revenue (¥, in millions)	30,352	32,751	33,847	16,429	15,572
Gross pay-ins (¥, in millions) .	224,968	242,217	236,449	120,674	90,989
Gross payouts (¥, in millions)	195,340	210,298	203,455	104,682	75,798
Revenue margin (%)	13.2	13.2	14.0	13.3	16.7
G-Prize mark-up (%)	—	—	—	—	4-20%
Machine utilisation (%)					
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

Gross pay-ins is primarily affected by the level of customer spending in our hall which is influenced to a large extent by the number, types and mixes of machines, the type of halls in operation and the number and playing time of playing customers.

Gross payouts is to a large extent determined by payout ratios and G-prize mark-ups. Our revenue from pachinko and pachislot business is affected by gross payouts and is therefore also affected by payout ratios and G-prize mark-ups. The payout ratio of each machine is initially set at a certain level by the machine manufacturer. We will then carry out maintenance or adjustments in full compliance with applicable laws and regulations.

Each machine may differ in terms of : (i) jackpot probability (i.e. 1/100, 1/200 and 1/300); (ii) jackpot size; and (iii) playing cost.

Jackpot probability is the probability of any customer triggering the jackpot mode, during which a relatively large number of balls and tokens may be released. Generally, the jackpot probability is expressed as a fraction (i.e. 1/100, 1/200 and 1/300), and the higher the jackpot probability, the lower the jackpot size, and vice versa. Both jackpot probability and the jackpot size are determined by the built-in computer program of the machine and cannot be adjusted by the pachinko hall operator. However, a pachinko hall operator is able to acquire machines with different pre-set jackpot probabilities. In general, we believe players who prefer the chance element will more likely play the machines with a bigger jackpot size and/or a lower jackpot probability, while players who prefer the entertainment element will more likely play the machines with a smaller jackpot size and/or a higher jackpot probability (which provides them with more

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winning experiences). Therefore, a pachinko hall operator’s understanding of customer preferences in machine types will affect customer traffic and in turn influence their gross pay-ins, revenue and results of operations.

Playing costs for pachinko and pachislot machines are as follows: (1) ¥0.5 to ¥4 per ball (before consumption tax) for pachinko; and (2) ¥2 to ¥20 per token (before consumption tax) for pachislot. For definitions of high playing cost machines and low playing cost machines, please refer to “Glossary of Technical Terms”. A low playing cost machine is generally likely to give rise to a higher revenue margin than a high playing cost machine as: (i) a low playing cost machine is generally preset with a lower payout ratio; and (ii) pachinko players can spend a longer time at low playing cost machines with similar gross pay-ins than high playing cost machines, leading to higher machine utilisation.

We allow our customers to store cash balances and also unutilised balls and tokens (which have not been exchanged for G-prizes or general prizes) in their membership cards and allow them to use or refund the cash balances, and use or redeem balls and tokens at our halls in their subsequent visits. We allow the players to store a maximum of ¥10,000, 999,999 balls and 199,999 tokens in their membership card. According to the membership card terms, balls and tokens stored in our membership cards do not expire, while the cash balances will be forfeited if our customers do not play in our halls with their membership card for a consecutive period of 90 days.

Customers can also buy IC cards with stored value (up to a maximum of ¥10,000) to play at our halls. The cash balances in the IC cards will be forfeited 21 days after the purchase.

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.

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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 the 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. 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 ¥18.4 trillion in 2014 to approximately ¥17.3 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 as us. Over 85.8% pachinko operators are small hall operators with less than 10 halls. 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.

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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 1.5% from 2014 to 2018 while that of the entire Japan is forecasted to increase by 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 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 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 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 Japanese government is considering passing legislations which allow casino operations to be set up in Japan in the coming years. The future development of such gaming and entertainment activities would certainly impact customer spending in the pachinko industry.

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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 negative CAGR 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 G-prize mark up in the hall — whether the payout ratio and G-prize mark up is 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

From an operator’s perspective, we consider payout ratio and machine offerings as the most important factors in attracting traffic to our halls. Any change of the payout ratio will impact our revenue margin, or the amount of net revenue we earn from our players spending in our halls. During the Track Record Period, we observed that customer traffic decreased with lower payout ratio of our machines, as reflected by the decrease in machine utilisation in our halls. However, we were able to maintain the level of our revenue as revenue margin has become higher. 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.

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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.

Payout ratio and operating efficiency

Our payout ratio and operating efficiency are key to our results of operation and financial results. Movements in payout ratio will have a direct effect on our gross payouts and revenue margin, and also an indirect effect on our gross pay-ins. For example, a decreased payout ratio allows us to retain more revenue from a customer, but it usually also results in decreased player traffic at our halls, which means decreased gross pay-ins. Therefore, it is ideal for any movements in payout ratio to be such that the decrease in gross payouts is greater than the decrease in gross pay-ins, which should ultimately lead to an increase in our revenue. In the year ended 31 March 2014, our overall payout ratio was lower than the previous year, thus, there was a decrease in the player traffic at our halls and our gross pay-ins. However, we maintained our decreased payout ratio (while ensuring strict compliance with all applicable laws) at a relatively optimal point where gross payouts decreased by a relatively larger amount, thus, our revenue actually increased.

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%
(¥, 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 additional 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” in this [REDACTED], 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. Furthermore, our purchases of G-prizes and general prizes are also subject to consumption tax. As such, our gross pay-ins decreased whereas our gross payouts increased, 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.

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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.

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.

Type of revenue/income	Basis of recognition and timing
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.
Hotel income	Hotel is recognised at the time of occupancy.
Vending machine income	Recognised in on a straight line basis over the accounting periods covered by the terms and conditions as stipulated in their respective agreement.
	Contingent vending machine income is recognised in the accounting period in which they are earned.
Interest income	Recognised on a time-proportion basis using the effective interest method.
Income from expired prepaid IC and membership cards	Representing unused cash balances stored in prepaid IC card and membership cards. Recognised upon the expiry of such cards. ^(Note)

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Type of revenue/income	Basis of recognition and timing
Dividend income	Recognised when the right to receive payment is established
Sundry income	Recognised when the right to receive payment is established.

Note: 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.

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

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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 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 the Group commits to purchase or sell the asset. Financial assets are derecognised when our group has transferred substantially all risks and rewards of ownership.

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(c) *Measurement at recognition*

Types of Financial Assets	Recognition and measurement
• Financial assets at amortised costs	Measured at amortised cost using the effective interest method.
• Financial assets carried at fair value	Financial assets carried at fair value through profit or loss — initially recognised at fair value, and transaction costs are expensed in the statements of comprehensive income Financial assets carried at fair value through other comprehensive income — initially recognised at fair value plus transaction costs

(d) *Subsequent measurement from changes in fair value*

Types of assets / income	Subsequent measurement
• Financial assets at amortised cost	Profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method
• Financial assets at fair value	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 Financial assets at fair value through other comprehensive income — Recognised in other comprehensive income 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

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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.

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.

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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;
- (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.

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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 change 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 the 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 the Company set out in Appendix I to this [REDACTED].

	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)
Revenue from pachinko and pachislot business	29,628	31,919	32,994	15,992	15,191
Other revenue ^(Note)	724	832	853	437	381
Revenue	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)
Operating profit	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)
Profit before income tax	6,307	6,485	6,008	2,683	1,627
Income tax expense	(2,978)	(2,720)	(2,310)	(1,060)	(690)
Profit for the year/period attributable to owners of the Company	3,329	3,765	3,698	1,623	937
Other comprehensive income					
Item that may be reclassified to profit or loss					
Change in value of financial assets through other comprehensive income	16	124	433	163	(39)
Total comprehensive income for the year/period attributable to the owners of the Company	3,345	3,889	4,131	1,786	898
Dividends	110	110	183	183	183
Earnings per share for profit attributable to equity holders of the Company . . .					
- Basic and diluted (expressed in Japanese Yen per share). . .	855	967	949	417	241

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 amounts received from pachinko balls and pachislot tokens rented to customers in our halls. 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)									
	¥	%	¥	%	¥	%	¥	%	¥	%
	(unaudited)									
Suburban ^(Note) . .	206,437	91.8	224,493	92.7	219,455	92.8	111,650	92.5	84,175	92.5
Urban ^(Note)	18,531	8.2	17,724	7.3	16,994	7.2	9,024	7.5	6,814	7.5
Total	224,968	100.0	242,217	100.0	236,449	100.0	120,674	100.0	90,989	100.0

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 will only be recorded if a player rented 100 ¥1 balls with us, as the current consumption tax rate is 8%. The effective 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 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
	(unaudited)									
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
Total	4,499	50	4,658	52	4,461	53	2,277	53	1,717	53

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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)									
	%		%		%		%		%	
Suburban										
High playing cost ⁽¹⁾	9,042	60.4	9,140	59.1	9,992	62.9	9,358	58.9	9,204	57.9
Low playing cost ⁽²⁾	5,940	39.6	6,324	40.9	5,887	37.1	6,543	41.1	6,691	42.1
Sub-total	14,982	100.0	15,464	100.0	15,879	100.0	15,901	100.0	15,895	100.0
Urban										
High playing cost ⁽¹⁾	899	57.3	891	52.5	877	51.7	877	51.7	848	50.9
Low playing cost ⁽²⁾	670	42.7	805	47.5	819	48.3	819	48.3	819	49.1
Sub-total	1,569	100.0	1,696	100.0	1,696	100.0	1,696	100.0	1,667	100.0
Total	16,551		17,160		17,575		17,597		17,562	

(1) Comprises pachinko machines with playing costs of ¥4 per ball or above.

(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)									
	%		%		%		%		%	
Suburban										
High playing cost ⁽¹⁾	6,045	88.8	6,389	87.5	6,644	87.0	6,155	81.2	6,545	83.5
Low playing cost ⁽²⁾	765	11.2	913	12.5	990	13.0	1,428	18.8	1,289	16.5
Sub-total	6,810	100.0	7,302	100.0	7,634	100.0	7,583	100.0	7,834	100.0
Urban										
High playing cost ⁽¹⁾	511	100.0	635	93.5	605	89.1	605	89.1	634	89.5
Low playing cost ⁽²⁾	—	0.0	44	6.5	74	10.9	74	10.9	74	10.5
Sub-total	511	100.0	679	100.0	679	100.0	679	100.0	708	100.0
Total	7,321		7,981		8,313		8,262		8,542	

(1) Comprises pachislot machines with playing costs of ¥20 per token or above.

(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.

	As at			As at 30 September	
Pachinko and pachislot machines	2012	2013	2014	2013	2014
<i>Suburban</i>					
High playing cost	359	361	378	353	358
Low playing cost	160	168	156	181	181
Total	<u>519</u>	<u>529</u>	<u>534</u>	<u>534</u>	<u>539</u>
<i>Urban</i>					
High playing cost	176	170	165	165	165
Low playing cost	84	94	99	99	99
Total	<u>260</u>	<u>264</u>	<u>264</u>	<u>264</u>	<u>264</u>

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.

	Year ended 31 March			Six months ended 30 September	
Pachinko machines⁽¹⁾	2012	2013	2014	2013	2014
	%	%	%	%	%
High playing cost	34.4	31.8	27.9	30.0	20.9
Low playing cost ⁽²⁾	39.6	37.3	35.8	37.8	33.7
Overall	37.3	34.9	32.2	34.5	27.5

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Pachislot machines ⁽³⁾	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	%	%	%	%	%
High playing cost	31.0	29.1	27.9	28.0	22.7
Low playing cost ⁽²⁾	30.7	30.2	29.0	31.4	23.0
Overall	31.0	29.3	28.4	29.2	22.8

- (1) The pachinko machine utilisation rate was calculated by dividing the average number of balls put into play per day by the maximum number of balls available to be played per day. The maximum number of balls available to be played per day is defined as the maximum number of balls that can be put into play per hour (i.e. 6,000 balls) multiplied by the number of operating hours (i.e. 13.5 hours) per day.
- (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 was calculated by dividing the average number of tokens put into play per day by the maximum number of tokens available to be played per day. The maximum number of tokens available to be played per day is defined as the maximum number of tokens that can be put into play per hour (i.e. 2,634 tokens) multiplied by the number of operating hours (i.e. 13.5 hours) per day.

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 at our halls by our customers taking into consideration of prize mark-up and the value of any unutilised balls and tokens, 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)									
	(unaudited)									
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
Total	195,340	100.0	210,298	100.0	203,455	100.0	104,682	100.0	75,798	100.0

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The table below shows a breakdown of the average gross payouts per 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 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
							(unaudited)			
Suburban	4,270	42	4,538	43	4,296	44	2,203	44	1,596	44
Urban	2,002	8	1,683	9	1,606	9	862	9	621	9
Total	3,907	50	4,044	52	3,839	53	1,975	53	1,430	53

Cost of G-prizes and general prizes is subject to the level of mark-up which we determine and apply. Our gross payouts are therefore to a large extent affected by the mark-ups on general prize and G-prize. They are also affected by payout ratios. The higher the mark-up added onto prizes, the lower the gross payouts would be. As for the payout ratios, the more balls a player can win from the game (i.e. a higher payout ratio which could probably affect player traffic), the higher the gross payouts would be. Therefore, our strategy is to offer a payout ratio which in our view represents the optimal balance between player traffic and the revenue we earn from customers, in order to maximise our revenue. Payout ratios are regulated by law, and they must fall within the legally permissible range at any time. Subject to that, the way pachinko machines are set can affect the chances balls can fall into the trigger pocket in order to get the jackpot mode to win more balls, thereby affecting the payout ratio. The payout ratio for pachislot machines on the other hand, can be adjusted by the payout setting in-built into the pachislot machines. The payout ratio of all of our machines has complied with legal limits. Please refer to “Business — Pachinko and Pachislot Hall Operations — Pachinko Halls — Machine maintenance and the business performance of our halls” for further details.

We had a mark-up of 18% to 25% for our general prize, while the mark-up of private brand general prize can reach 45% in the Track Record Period. Starting from April 2014 onwards, along with the increase in consumption tax from 5% to 8%, we applied mark-up of 4% to 20% for exchange of G-prize to transfer part of our cost to our players (i.e. a mark-up of 10% means a G-prize with value of ¥5,000 required a total of 5,500 ¥1 ball to exchange). We applied different G-prize mark-ups for machines of different playing costs in different halls. Taking into account the above, generally speaking, the payout ratios are lower, and the G-prize mark-ups are higher — or less favourable for customers — in our urban halls, and payout ratios are higher, and the G-prize mark-ups are lower — or more favourable for customers — in our suburban halls.

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Revenue

Our total revenue comprises (i) revenue from pachinko and pachislot business, representing gross pay-ins less gross payouts; (ii) rental income and revenue sharing for vending 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 are affected by the number of players visiting and playing in our halls, which in turn are affected by the general trend of the pachinko industry (which we cannot control), and the mixture of pachinko/pachislot machines, the jackpot probability and payout ratio of our machines (which affects the attractiveness of our halls, and are by and large within our control). Gross payouts on the other hand are generally affected by the cost towards the G-prizes and general prizes, and most importantly the level of mark-up we apply to them.

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.

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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)									
Revenue from pachinko and pachislot business										
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 ^(Note)	724	2.4	748	2.3	704	2.1	362	2.2	301	1.9
Revenue from pachinko and pachislot hall operations	30,352	100.0	32,667	99.7	33,698	99.6	16,354	99.5	15,492	99.5
Hotel operations	—	0.0	84	0.3	149	0.4	75	0.5	80	0.5
Total revenue	30,352	100.0	32,751	100.0	33,847	100.0	16,429	100.0	15,572	100.0

Note:

- 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 [REDACTED].
- The hotel was temporarily closed in the year ended 31 March 2012 for renovation after the Great East Japan Earthquake.

Revenue Margin

Revenue margin for pachinko and pachislot hall operations represents revenue from our pachinko and pachislot business (i.e. gross pay-ins less gross payouts) divided by gross pay-ins. Please refer to “—Revenue” above in this section 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
Overall	13.2	13.2	14.0	13.3	16.7

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We maintained a relatively low payout ratio in our urban halls during the Track Record Period, which resulted in a higher revenue margin in those halls. In response to the increase incorporation tax from 5% to 8% from 1 April 2014 onwards, we applied higher G-prize mark-ups in the six months ended 30 September 2014, as a measure to maximise our total revenue. As a result, compared to the dropping gross pay-in by 24.6% our revenue for the six months ended 30 September 2014 only decreased by 5.2% compared with that of the six months ended 30 September 2013.

As a result of the above, our revenue margin increased from 13.2% to 16.7% in the Track Record Period.

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.

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 ⁽¹⁾	889	79.7	127	28.5	44	11.6	10	5.5	598	74.7
Rental income ⁽²⁾	89	8.0	161	36.1	149	39.4	76	41.8	74	9.2
Income from sales of used pachinko and pachislot machines ⁽³⁾	94	8.4	59	13.2	51	13.5	34	18.7	68	8.5
Dividend income ⁽⁴⁾	4	0.4	29	6.5	67	17.7	35	19.2	34	4.2
Income from expiry of cash balances stored in prepaid IC card and membership card ⁽⁵⁾	36	3.2	41	9.2	40	10.6	21	11.5	18	2.2
Others ⁽⁶⁾	3	0.3	29	6.5	27	7.1	6	3.3	9	1.1
Total	1,115	100.0	446	100.0	378	100.0	182	100.0	801	100.0

(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 (電源地域振興

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セクター) 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 セクター) 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. Please refer to Note 6 of the Accountant's Report set out in Appendix I to this [REDACTED] 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 prepaid IC card and membership card represents the income earned when the cash balances stored in prepaid 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 prepaid 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.

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.

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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 ⁽¹⁾	(537)	106.5	(24)	120.0	(101)	104.1	(85)	104.9	(39)	156.0
Net exchange (loss)/gain ⁽²⁾	(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 ⁽³⁾	(8)	1.6	11	-55	5	-5.2	2	-2.5	4	-16.0
Gain/(loss) on fair value for interest rate swap ⁽⁴⁾	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 ⁽⁵⁾	—	0.0	(28)	140	—	0.0	5	-6.2	—	0.0
	(504)	100.0	(20)	100.0	(97)	100.0	(81)	100.0	(25)	100.0

- (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 the 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.

Hall operating expenses

Hall operating expenses mainly represents (i) expense for purchase of pachinko and pachislot machines; (ii) staff cost, including salary, bonus and other provisions in relation to staff cost for staff working in our hall; (iii) rental expenses for leased hall properties; (iv) utilities and consumable expenses including electricity, water, consumables and cleaning expense; (v) depreciation for property, plant and equipment in relation to our halls (vi) outsourcing service fees including security, transportation and various cleaning service fees; (vii) G-prizes expenses representing the monthly fee paid to G-prizes wholesalers for procurement services for G-prizes,

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and (vii) repair and maintenance fees for our hall properties, pachinko and pachislot machines and others. 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 hall operating expenses was the expenditure on 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 purchase of new machines is 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 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	412		421		430		217		220	

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) [REDACTED] expenses for the [REDACTED]; (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 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.

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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
[REDACTED] 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	139	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	431	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 was 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)									
Finance income										
Bank interest income	3	5	—	—	1	2	—	—	—	—
Other interest income . . .	63	95	63	100	57	98	28	100	88	100
	<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>
Finance costs										
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	(87)	11	(79)	11	(52)	7	(24)	7	(26)	7
	<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>
Finance costs, net	<u>(728)</u>	N/A	<u>(657)</u>	N/A	<u>(686)</u>	N/A	<u>(340)</u>	N/A	<u>(269)</u>	N/A

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 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 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.

Under 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. 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.

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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. Please 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	2013 vs 2014	
(¥ in millions, except for percentages)				
Gross pay-ins				
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>	<u>-24.6%</u>
Average gross pay-ins per hall				
Suburban.....	2,538	1,913	(625)	-24.6%
Urban.....	1,003	757	(246)	-24.5%
Overall	2,277	1,717	(560)	-24.6%
Machine utilisation				
<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
Overall	34.5	27.5	-7.0%	N/A
<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
Overall	29.2	22.8	-6.4%	N/A

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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) our new policy of imposing mark-ups ranging from 4% to 20% (with an average of around 10%) on G prize redemption with effective from 1 April 2014, and (ii) lower payout ratios in our halls, with the intention to maximise our revenue to minimise 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 seek 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)				
Gross payouts				
Suburban.....	96,924	70,207	(26,717)	-27.6
Urban.....	7,758	5,591	(2,167)	-27.9
	104,682	75,798	(28,884)	-27.6
Average gross payouts per hall				
Suburban.....	2,203	1,596	(607)	-27.6
Urban.....	862	621	(241)	-28.0
Overall	1,975	1,430	545	-27.6

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)				
Revenue from pachinko and pachislot business				
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
Revenue from pachinko and pachislot hall operations.....	16,354	15,492	(862)	-5.3
Revenue from hotel operations	75	80	5	6.7
Total revenue	16,429	15,572	(857)	-5.2
Revenue margin of pachinko and pachislot business				
Suburban.....	13.2%	16.6%	3.4%	N/A
Urban.....	14.0%	17.9%	3.9%	N/A
Overall	13.3%	16.7%	3.4%	N/A

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 and lower payout ratios in our halls from 1 April onwards as mentioned above, our gross pay-ins decreased by 24.6%, but our revenue margin rose from 13.2% to 16.6%, which helped lessen the drop in revenue from pachinko and pachislot hall operations to only 5.0% 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 TIBOR (Tokyo Interbank Offer Rates) rose in the third quarter of 2014 which increased the fair value of our fixed to floating interest rate swaps (i.e. we pay fixed rate and receive floating rate) held by us.

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 June 2014 was mainly attributable to the increase of pachinko and pachislot machine expenses as we continued to purchase new machines upon their new releases to ensure wide and up-to-date selection of machines is 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 the Company, 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 [REDACTED] for ¥[REDACTED] 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 increase 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 ¥[REDACTED] million incurred for [REDACTED], 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)				
Gross pay-ins				
Suburban.....	224,493	219,455	(5,038)	-2.2
Urban.....	17,724	16,994	(730)	-4.1
	242,217	236,449	(5,768)	-2.4
Average gross pay-ins per hall				
Suburban.....	5,221	4,988	(233)	-4.5
Urban.....	1,969	1,888	(81)	-4.1
Overall	4,658	4,461	197	-4.2
Machine utilisation				
<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
Overall	34.9%	32.2%	-2.7%	N/A
<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
Overall	29.3%	28.4%	-0.9%	N/A

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 period which was mainly attributable to the decrease in customer traffic and spending as evident in the drop in utilisation across all machines types. Upon noticing a drop in utilisation rate and decrease in gross pay-ins in our halls, we responded by (i) increasing our revenue margin slightly (i.e. decrease our payout ratio) and (ii) we 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)				
Gross payouts				
Suburban.....	195,151	189,003	(6,148)	-3.2
Urban.....	15,147	14,452	(695)	-4.6
	210,298	203,455	(6,843)	-3.3
Average gross payouts per hall				
Suburban.....	4,538	4,296	(242)	-5.3
Urban.....	1,683	1,606	(77)	-4.6
Overall	4,044	3,839	(205)	-5.1

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)				
Revenue from pachinko and pachislot business				
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
Revenue from pachinko and pachislot hall operations	32,667	33,698	1,031	3.2
Revenue from hotel operations	84	149	65	77.4
Total revenue	32,751	33,847	1,096	3.3
Revenue margin of pachinko and pachislot business				
Suburban.....	13.1%	13.9%	0.8%	N/A
Urban.....	14.5%	15.0%	0.5%	N/A
Overall	13.2%	14.0%	0.8%	N/A

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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 to ¥44 million for the year ended 31 March 2014, due to the receipt of a subsidy of ¥58 million from the Fukushima Labour Bureau for the repair and maintenance of buildings damaged by the Great East Japan Earthquake in the year ended 31 March 2013. 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 the 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 the Company, 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 six months 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 liabilities of Jin Corporation, including its unutilised tax losses were merged with Niraku

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Corporation. Such unutilised tax loss was set off against the taxable profits of Niraku Corporation in the year ended 31 March 2014. Please refer to “History and Corporate Development — Corporate structure and development — Dissolved entities” in this [REDACTED] 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 among impairment on other assets 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	2013 vs 2014	
(¥ in millions, except for percentages)				
Gross pay-ins				
Suburban.....	206,437	224,493	18,056	8.7%
Urban.....	18,531	17,724	(807)	-4.4%
	224,968	242,217	17,249	7.7%
Average gross pay-ins per hall				
Suburban.....	4,915	5,221	306	6.2%
Urban.....	2,316	1,969	(347)	-15.0%
Overall	4,499	4,658	159	3.5%
Machine utilisation				
<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
Overall	37.3%	34.9%	(2.4)%	N/A
<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
Overall	31.0%	29.3%	(1.7)%	N/A

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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. (For further details of the impact of the Great East Japan Earthquake on our operations, please refer to “Business — Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake”). 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 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)				
Gross payouts				
Suburban.....	179,324	195,151	15,827	8.8%
Urban.....	16,016	15,147	(869)	-5.4%
	195,340	210,298	14,958	7.7%
Average gross payouts				
Suburban.....	4,270	4,538	268	6.3%
Urban.....	2,002	1,683	(319)	-15.9%
Overall	3,907	4,044	137	3.5%

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)				
Revenue from pachinko and pachislot business				
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%
Revenue from pachinko and pachislot hall operations	30,352	32,667	2,315	7.6%
Revenue from hotel operations	—	84	84	N/A
Total revenue	30,352	32,751	2,399	7.9%
Revenue margin of pachinko and pachislot business				
Suburban.....	13.1%	13.1%	0.0%	N/A
Urban.....	13.6%	14.5%	0.9%	N/A
Overall	13.2%	13.2%	0.0%	N/A

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 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 the Company, 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 [REDACTED] 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>
Cash and cash equivalents at the end of the year/period, represented by bank balances and cash	<u>12,585</u>	<u>6,909</u>	<u>8,409</u>	<u>7,951</u>	<u>10,002</u>

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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 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. The increase in accruals, provisions and other payables was mainly due to an increase in payables for retirement payment of ¥600 million to Mr. Masataka TANIGUCHI 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. The net cash inflow from inventory was due to the cash outflow from movements of balances of inventory taking into account the effect of financing of purchase of machines with finance lease.

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. Tatsuo TANIGUCHI 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 maximum amount of G-prize redeemed in a day from our experience. 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.

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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 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 machine purchasing expenses as the Company placed more orders for new machines compared to that as at 31 March 2011. 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, pledged and restricted bank deposits of ¥925 million; (iv) cash used in the acquisition of Jin corporation for ¥820 million; (v) net cash inflow from decrease in amount due from related parties of ¥435 million and (v) 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.

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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.

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 for ¥1,636 million; (ii) repayment of obligations under finance leases for ¥776 million; (iii) cash outflow from distribution to shareholders amounted to ¥988 million; (iv) cash outflow from purchase of shares for ¥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 Niraku Investment Inc. to our controlling shareholder with carrying value of ¥988 million. Cash used in purchase of shares represented the purchase of Niraku's shares by Nexia and by Niraku Corporation for ¥497 million and ¥29 million respectively.

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 Niraku's shares 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 Kyoko TANIGUCHI (谷口京子) and KAWASHIMA Co., Ltd in the year.

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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 related company; and (iv) cash outflow from payment of dividend of ¥110 million paid in the year.

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
Total capital expenditure	<u>2,585</u>	<u>3,472</u>	<u>5,104</u>	<u>1,239</u>

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 [REDACTED], cash flows from operations and debt financing which may include drawing new short or long term loans or issuing debt instruments. Please refer to “— Liquidity and Capital Resources — Cash flow and treasury management” in this section for further details.

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The table below shows a breakdown of the uses of our estimated capital expenditure for the indicated periods:

	For the six months ended 31 March	For the year ended 31 March
	2015	2016
	(¥, in millions)	
Property, plant and equipment	<u>2,124</u>	<u>3,019</u>

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	<u>4,239</u>	<u>3,714</u>	<u>5,247</u>	<u>5,024</u>
	<u>7,212</u>	<u>6,760</u>	<u>9,073</u>	<u>9,684</u>

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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.	—	407	—	866

INDEBTEDNESS

As at 31 October 2014, being the latest date for the purpose of liquidity disclosure in this [REDACTED], bank borrowings of ¥11,098 million were secured by land and buildings, investment properties, bank deposits, deposits and other receivable and other long-term assets held by the Company and corporate guarantees provided by Niraku Corporation and Nexia Inc. As at 31 October 2014, except for the bank borrowing of ¥2,898 million, ¥4,802 million and ¥3,453 million which was repayable between 1 and 2 years, between 2 and 5 years and over 5 years, respectively, all the remaining indebtedness was repayable within the coming 12 months.

FINANCIAL INFORMATION

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 October
	2012	2013	2014	2014	2014
	(¥, in millions)				
Non-current Liabilities					
<i>Borrowings</i>					
Bank loans	2,149	2,617	3,469	3,627	4,504
Syndicated loans	2,854	5,155	5,606	5,772	6,080
Bonds	23	219	195	569	569
Subtotal	5,026	7,991	9,270	9,968	11,153
Obligations under finance leases	4,135	4,158	5,366	4,090	4,060
Amount due to a related party	45	—	—	—	—
	9,206	12,149	14,636	14,058	15,213
Current Liabilities					
<i>Borrowings</i>					
Bank loans	1,689	2,034	2,233	3,048	2,729
Syndicated loans	5,319	1,001	851	903	945
Bonds	195	47	25	122	122
Subtotal	7,203	3,082	3,109	4,073	3,796
Obligations under finance leases	2,392	2,394	2,253	2,808	2,555
Amount due to a related party	100	—	—	—	—
Amount due to a related company	—	—	—	24	—
	9,695	5,476	5,362	6,905	6,351
Total indebtedness	18,901	17,625	19,998	20,963	21,564

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Due to the capital needed for construction of new halls for our expansion, we have relied on 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 October 2014, our total borrowings amounted to ¥18,901 million, ¥17,625 million, ¥19,998 million, ¥20,963 million and ¥21,564 million, respectively.

Most of our loans made in the Track Record Period charged floating interest rates 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. Please refer to “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 October ^(Note)
	2012	2013	2014	2014	2014
(¥, in millions)					
Property, plant and equipment	10,405	10,439	7,902	8,975	8,254
Investment properties	683	669	676	669	678
Bank deposits	200	1,100	1,100	1,100	1,100
Deposits and other receivables	185	180	339	335	335
Other long term assets	28	35	37	67	67
	<u>11,501</u>	<u>12,423</u>	<u>10,054</u>	<u>11,146</u>	<u>10,434</u>

Note: Date of our indebtedness statement.

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As at 31 March 2012, 2013 and 2014, 30 September 2014 and 31 October 2014, the assets with carrying amounts of ¥11,501 million, ¥12,423 million, ¥10,054 million, ¥11,146 million and ¥10,434 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 October 2014 did not contain any material or restrictive covenant that may materially hinder our ability to obtain or renew our loans. Certain of our loans and borrowings as at 31 October 2014 were guaranteed by our Directors and shareholders. Such guarantees will be released or replaced by guarantees by companies in our Group before [REDACTED].

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 and ¥9,968 million as at 31 March 2012, 2013 and 2014 and 30 September 2014, respectively.

The table below shows the maturity profile of the non-current portion of our long-term bank borrowing as at the indicated dates:

	As at 31 March			As at 30 September	As at 31 October
	2012	2013	2014	2014	2014
	(¥, in millions)				
Between 1 and 2 years . .	1,765	1,479	2,278	2,761	2,898
Between 2 and 5 years . .	1,357	2,936	3,884	4,238	4,802
Over 5 years	1,904	3,576	3,108	2,969	3,453
	<u>5,026</u>	<u>7,991</u>	<u>9,270</u>	<u>9,968</u>	<u>11,153</u>

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Included in our long-term borrowings are bond issues consist of our outstanding corporate bonds issued from 2004 to 2014 in 9 batches, all of which are unlisted. Our bond issues 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 October 2014)	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

In the year ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2013 and 2014, we had interest expenses on bonds issues of ¥9 million, ¥5 million, ¥5 million, ¥3 million and ¥1 million, respectively.

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 generally incur 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 and ¥4,073 million as at 31 March 2012, 2013 and 2014 and 30 September 2014, respectively.

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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 agreement entered with us after netting off the future interest expenses during the remaining lease term of the relevant property lease agreements or vehicle lease agreement. The balances 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 receivable, net, as at 31 March 2012, 2013 and 2014 and 30 September 2014:

	As at 31 March			As at 30 September
	2012	2013	2014	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)
Present value of finance lease liabilities	6,527	6,552	7,619	6,898
In which comprises of:				
Current portion of finance lease liabilities	2,392	2,394	2,253	2,808
Non-current portion of finance lease liabilities	4,135	4,158	5,366	4,090

Our obligation under finance lease mainly includes 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. Our total obligation under finance lease amounted to ¥6,527 million, ¥6,552 million, ¥7,619 million and ¥6,898 million as at 31 March 2012, 2013 and 2014 and 30 September 2014, which mainly represented future lease obligations for eight, nine, nine and ten pachinko hall properties, respectively.

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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 October 2014.

Save as disclosed in this [REDACTED], 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 October 2014, 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 is no material change in our Group’s indebtedness since 31 October 2014.

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 out current assets and current liabilities as at the date indicated:

	As at 31 March			As at 30 September	As at 31 October
	2012	2013	2014	2014	2014
	(¥, in millions)				
	(unaudited)				
ASSETS					
Current assets					
Inventories	412	86	21	40	346
Trade receivables	60	64	54	52	51
Prepayments, deposits and other receivables	989	1,035	1,546	1,487	1,541
Amounts due from Directors	10	12	12	—	—
Financial assets at fair value through profit or loss	34	—	100	—	—
Pledged bank deposits and bank deposits with maturity over 3 months	758	1,754	1,706	1,639	1,683
Cash and cash equivalents	12,585	6,909	8,409	10,002	10,149
Current income tax recoverable	—	—	121	370	370
Total current asset	14,848	9,860	11,969	13,590	14,140
Current liabilities					
Trade payables	347	382	201	145	141
Borrowings	7,203	3,082	3,109	4,073	3,796
Obligations under finance leases	2,392	2,394	2,253	2,808	2,555
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	3,704
Derivative financial instrument	18	18	15	15	14
Current income tax liabilities	2,375	1,277	1,029	1,235	1,514
Total current liabilities	16,012	10,737	8,951	12,625	11,724
Net current (liabilities)/assets	(1,164)	(877)	3,018	965	2,416

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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 long term 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 during the Track Record Period and we had net current asset position as at 31 March 2014, 30 September 2014 and 31 October 2014 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 and ¥2,416 million as at 31 March 2012, 2013 and 2014 and 30 September 2014. 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 has decreased from 40.2% to 37.6% in the year, which were 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.

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 ¥2,416 million as at 31 March 2014, 30 September 2014 and 31 October 2014, 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 ¥10,149 million as at 31 March 2012, 2013 and 2014 and 30 September 2014 and 31 October 2014, 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
- 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.

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ANALYSIS OF FINANCIAL POSITIONS

The table below shows out 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)			
Non-current assets				
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
	30,335	32,334	34,936	35,496
Non-current liabilities				
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
	10,523	13,605	16,154	15,582

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ANALYSIS OF CERTAIN CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

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
	22,351	23,735	25,817	25,806

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 new computers for the replacement of personal lap-tops used by our staff members. 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 the 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 respective book value. Please refer to the paragraph “Property interest and property valuation” below in this section and the valuation report as set out in Appendix III to this [REDACTED] for further details.

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

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general prize held by us as stock as at the period/year end. Please refer to the table below for the amounts as at the indicated dates:

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Non-current portion				
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
	4,051	4,310	4,251	4,519
Current portion				
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
	989	1,035	1,546	1,487
	5,040	5,345	5,797	6,006

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 in respect of our hall to be 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.

The balance of prepayment for G-prize at year/period end date depends on the player traffic of that particular day. We generally only keep stock of G-prize sufficient for our customer traffic for 2 days. At the end of a day, we will place order from G-prize wholesaler 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 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

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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 mainly due to deposits paid to landlords for the new hall opened in the year ended 31 March 2014.

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)			
Amounts due from directors and a shareholder				
Hisanori TANIGUCHI	98	97	95	—
Tatsuo TANIGUCHI	98	97	95	—
Masataka TANIGUCHI	132	129	126	—
	<u>328</u>	<u>323</u>	<u>316</u>	<u>—</u>
Amounts due from related companies				
Jukki Limited	70	—	—	—
Densho Limited	70	—	—	—
Echo Limited	70	—	—	—
Daiki Limited	70	—	—	—
Hokuyo Kanko Limited	155	—	—	—
	<u>435</u>	<u>—</u>	<u>—</u>	<u>—</u>
Amounts due to related companies				
KAWASHIMA Co., Ltd.	(45)	—	—	—
Niraku Investment Inc.	—	—	—	(24)
	<u>(45)</u>	<u>—</u>	<u>—</u>	<u>(24)</u>
Amount due to a related party				
Kyoko TANIGUCHI	<u>(100)</u>	<u>—</u>	<u>—</u>	<u>—</u>

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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 (repayable on demand) offered to companies which are members of the Taniguchi Consortium. Amount due to related companies represented (i) a loan, which was interest bearing and repayable on demand 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.

Since we were a private company before [REDACTED] 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 [REDACTED], 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 [REDACTED].

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)			
Unlisted securities				
- Debt securities	429	546	701	697
- Less non-current portion	(395)	(546)	(601)	(697)
Current portion	34	—	100	—

Financial assets at fair value through other comprehensive income

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	(¥, in millions)			
Listed securities				
- Equity securities	134	909	1,574	1,474
Unlisted securities				
- Equity securities	86	10	—	2
Non-current portion	220	919	1,574	1,476

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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 those from regular bank deposits. Our investments in debt securities in the Track Record Period were kept with registered banks in Japan. We invested in (i) sovereignty bonds issued by Japan, (ii) bond 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. Please refer to the table below for the total gains/losses of our financial assets at fair value through profit and loss in 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 sovereignty bonds issued by Japanese government, debt securities issued by financial institutions in Japan, and units in two trusts organised by a bank in Japan. All such debt securities do not contain any express provisions by which our entitlement to full amount of the principal will be affected. Please see the table below for a summary of the features of the debt securities:

Name	Type of debt instrument	[REDACTED]	Term	Maturity	Interest rate	Other features	Carrying value as at 30 September 2014 (¥, in millions)
Sovereignty bond (1)							
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
Bond with embedded options (2)							
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%	Early retirement clause: [REDACTED] 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%	Early retirement clause: (i) [REDACTED] 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
Trust instruments (3)							
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	7/6/2023	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.
- (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 offers a fixed return over its investment period.

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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 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. Please refer to the table below for the changes in other comprehensive income as a result of movement in fair value of these investments.

	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	(¥, in millions)				
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 [REDACTED]. Apart from our existing investment holdings, we plan to only invest in debt securities with credit rating of investment grade or above without any embedded derivatives and listed securities. 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. 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 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

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 ⁽¹⁾				Loan Number	Loan Name	Start date of the loan	End date of the loan	Interest rate	Loan Balance as at ⁽¹⁾			
					31 March 2012	31 March 2013	31 March 2014	30 September 2014						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	201	Syndicated loan - 9th round	30/9/2007	26/3/2012	3 mth TIBOR +2.25%	N/A	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	202	Syndicated loan - 10th round	25/12/2006	25/3/2012	6 mth TIBOR +2.25%	N/A	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	227	Syndicated loan - 14th round	21/3/2007	22/3/2013	3 mth TIBOR +2.125%	300	N/A	N/A	N/A
249	24/3/2008	22/3/2013	3.70%	3 mth TIBOR +2.125%	350	70	N/A	N/A	249	Syndicated loan - 11th round	24/3/2008	22/3/2013	3 mth TIBOR +2.125%	250	N/A	N/A	N/A
238	28/12/2007	28/6/2013	3.94%	3 mth TIBOR +2.125%	375	75	N/A	N/A	238	Syndicated loan - 12th round	28/12/2007	30/6/2013	3 mth TIBOR +2.125%	375	75	N/A	N/A
240-A	7/3/2008	7/9/2017	3.99%	3 mth TIBOR +2.125%	694	568	442	378	240	Syndicated loan - 15th round - A	7/9/2007	7/9/2017	3 mth TIBOR +2.125%	694	568	442	378
240-B	7/3/2008	7/9/2012	3.67%	3 mth TIBOR +2.125%	33	N/A	N/A	N/A	240	Syndicated loan - 15th round - B	7/9/2007	7/9/2012	3 mth TIBOR +2.125%	33	N/A	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 ⁽¹⁾				Loan Number	Loan Name	Start date of the loan	End date of the loan	Interest rate	Loan Balance as at ⁽¹⁾			
					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	(55)	(33)	(28)	(16)	(13)
Total	(11)	(22)	(32)	(19)	(3)

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	5	21	5	6
	412	86	21	40
Inventory turnover days (Note)	0.41	0.38	0.08	0.06

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 (i) pachinko and pachislot machines not yet installed and (ii) agricultural produce and supplies for our Niraku Merrist business. 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.

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For the inventory as at 30 September 2014, all pachinko and pachislot machines and ¥5 million of other inventories were subsequently used up by 31 October 2014.

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 30 to 90 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 issue written reminders to follow-up with our customers.

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 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>

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
	<u>65</u>	<u>69</u>	<u>59</u>	<u>57</u>
Debtor turnover days (Note)	<u>25.2</u>	<u>30.3</u>	<u>30.6</u>	<u>32.2</u>

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.

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Our debtor turnover days were stable in the Track Record Period and amounted to 25.2 days, 30.3 days, 30.6 days, 32.2 days for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014, which were within 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 October 2014, all except ¥5 million of our trade receivables as at 30 September 2014 were settled.

Trade Payables

Our trade payables mainly represent payables to suppliers of G-prize and 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
	<u>347</u>	<u>382</u>	<u>201</u>	<u>145</u>
Creditor's turnover days (Note)	<u>0.37</u>	<u>0.55</u>	<u>0.45</u>	<u>0.35</u>

Note: As trade payables mainly represent the payables to G-prize and general prize suppliers, 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.

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We are generally required to settle our payables to G-prize wholesaler upon delivery of the G-prize. General prize supplier usually allows credit period up to 90 days. As G-prize contributes to more than 95% of the prize redeemed by customers in the Track Record Period, our optimal creditor turnover days should be around one day. Our creditor turnover days remained below one day in the Track Record Period as it is our practice to settle trade payable balances according to credit terms offered. As at 31 October 2014, all of our trade payables as at 30 September 2014 have yet to be settled.

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)			
Non-current portion				
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>
Current portion				
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 machines operator to place deposits equivalent to the three months’ rentals, and in some cases we also require the vending machine operators to prepay part of their rent. The balance remained stable in the Track Record Period.

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Accrued expenses represent (i) accrual for the purchases of pachinko and pachislot machines which has not yet been billed by the suppliers; (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.

Other payables mainly represent (i) the payables to service supplier for office expenses and consumables; (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 consumable and office expenses for ¥287 million and decrease in provision for unutilised balls for ¥145 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 are 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. Please 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 October 2014 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 — Summary of our Articles of Incorporation and Japan Corporation Law” to this [REDACTED].

FINANCIAL INFORMATION

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 [REDACTED] with the valuation of these properties as at 31 October 2014 as set forth in “Appendix III — Summary of our Articles of Incorporation and Japan Corporation Law” to this [REDACTED].

	¥ (million)
Net book value of the following properties as at 30 September 2014 .	
- Freehold land and buildings included in investment properties ⁽¹⁾	669
- Freehold land and buildings included in property, plant and equipment ⁽²⁾ . .	<u>536</u>
Total	1,205
Movements during the period from 1 October 2014 to 31 October 2014 ⁽³⁾ . .	<u>(3)</u>
Net book value as at 31 October 2014	1,202
Net valuation surplus	<u>250</u>
Valuation of properties owned by our Group as at 31 October 2014 as set out in the property valuation report in Appendix III to this [REDACTED] . . .	<u><u>1,452</u></u>

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 October 2014 represented the depreciation of ¥1 million and ¥2 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 ⁽¹⁾	0.93	0.92	1.34	1.08
Quick ratio ⁽²⁾	0.90	0.91	1.33	1.07
Gearing ratio (%) ⁽³⁾	101.4	98.7	91.7	100.4
Debt to equity ratio (%) ⁽⁴⁾	33.9	60.0	53.2	52.5
Return on total assets (%) ⁽⁵⁾	7.4	8.9	7.9	3.8*
Return on equity (%) ⁽⁶⁾	17.9	21.1	17.0	9.0*
Interest coverage ⁽⁷⁾	9.7	10.9	9.8	7.0

Notes:

* Profit attributable to shareholders was 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.

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- (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 (ii) obligations under finance leases and (iii) 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.

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 primarily 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.

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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.

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 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 which amounted to ¥4,575 million.

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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 as at 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 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

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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 2012 to 31 March 2013.

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 increase 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 [REDACTED] of the [REDACTED], our Group has sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this [REDACTED].

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 [REDACTED], 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 the 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) [REDACTED] expenses of ¥[REDACTED] 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.

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Please see “— [REDACTED] Expenses” in this section below for [REDACTED] expenses that will be charged after 30 September 2014.

[REDACTED] EXPENSES

The estimated total [REDACTED] expenses (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of our indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] and that the [REDACTED] is not exercised) incurred or to be incurred in relation to the [REDACTED] are approximately ¥[REDACTED] (approximately HK\$[REDACTED]), of which approximately ¥[REDACTED] (approximately HK\$[REDACTED]) is directly attributable to the issue of [REDACTED] in the [REDACTED] and to be accounted for as a deduction from equity and approximately ¥[REDACTED] (approximately HK\$[REDACTED]) is to be charged as administrative expenses to our profit and loss accounts in the period in which the expenses are incurred. The [REDACTED] expenses of approximately ¥[REDACTED] (approximately HK\$[REDACTED]) were charged to our profit and loss account for the six months ended 30 September 2014. Approximately ¥[REDACTED] (approximately HK\$[REDACTED]) are expected to be charged to our profit and loss account after 30 September 2014, which will be reflected in our administrative and other operating expenses for the year 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. Please 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 increased or decreased 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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Price Risk

Our Group is exposed to equity securities price risk because of investments in listed securities held by us which are classified on 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 were increased or decreased by 5% and all other variables were held constant, the impact on our Group's equity would increase or decrease or increase 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 5 customers which are all vending machine providers of the Group accounted for approximately 58%, 53%, 56% and 60%, respectively, to 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 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.

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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, committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

Please refer to the table as included in note 3.1(c) of the Accountant’s report as set out in the [REDACTED] 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 and will be subject to shareholders’ approval. 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, distributable profits as determined under IFRS, our Articles of Incorporation, the Japan Companies Act and any other applicable Japan law and regulations (as discussed below) and other factors that our Directors may consider relevant. For further information, please see “— 6. Dividends and distributions” in Appendix V to this [REDACTED]. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements 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.

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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 the Company). For further information on the Distributable Amount, please see “— 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 [REDACTED] 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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UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the [REDACTED] are set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of the Group attributable to the shareholders of the Company as of 30 September 2014 as if the [REDACTED] 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 [REDACTED] been completed as at 30 September 2014 or at any future dates.

[REDACTED]

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[REDACTED]

DISCLOSURE REQUIRED UNDER THE [REDACTED]

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 [REDACTED] had our Shares been [REDACTED] on the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately upon completion of the [REDACTED], members of the Taniguchi Consortium will collectively be interested in approximately [REDACTED]% 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 [REDACTED]. 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)[#] (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 who has no executive function within our Group; 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 — Directors — Executive Director” for the biographical information and experiences of our Chairman.

None of our Controlling Shareholders is interested in any [REDACTED] 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 [REDACTED]. 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 [REDACTED] to consolidate their control over our Group until and unless the Deed of AIC Confirmation is terminated in writing. The Deed of AIC Confirmation covers our Company and all of our subsidiaries and contains the following salient terms:-

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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 [REDACTED], 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 Rules 8.10 of the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Apart from their respective interests in our Group, which is their principal business venture, the only other material business interests of our Controlling Shareholders are 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.

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 are expected to 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.

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 will be a 10% interest in a limited liability company incorporated in the state of Delaware in the U.S. currently expected to be acquired in December 2014. 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, USD135.7 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 (USD110 million), USD3.8 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 is expected to acquire the 10% interests in the Las Vegas Property in December 2014 from an independent third party of our Company at a consideration of approximately USD8 million which will be paid in cash.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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.

Based on the industry knowledge of our Directors, the Japanese government is in the process of legalising gambling in Japan. Notwithstanding that we will consider progressively venturing into the operation of casinos in Japan if and when we see merits in doing so, 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 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 [REDACTED], 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 [REDACTED]) and minimised (by virtue of the Deed of Non-Competition);

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (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;
- (v) notwithstanding that our Chairman and Mr. Akinori OHISHI (大石明德), an Executive Officer, are both directors of NI and NUSA, they will 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 is expected to have the sole and exclusive right to manage the business and affairs of the Las Vegas Property and to make all decisions thereunder. Hence, our Chairman and Mr. Akinori OHISHI (大石明德) are not expected to 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 [REDACTED]. Any connected transactions between our Company and companies controlled by our Controlling Shareholders will be subject to the rules and regulations under the [REDACTED] including rules relating to 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;

RELATIONSHIP WITH 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);
- (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 from 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 [REDACTED], will constitute continuing connected transactions of our Company under the [REDACTED].

Our Directors confirm that all non-trade related party transactions with our Controlling Shareholders and their respective close associates will be discontinued upon [REDACTED].

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 [REDACTED]. 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 [REDACTED]. 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 from any of our Controlling Shareholders (including their respective close associates) after our Company is [REDACTED] on the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DEED OF NON-COMPETITION

Non-competition

For the purpose of the [REDACTED], our Controlling Shareholders have entered into the Deed of Non-Competition, 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 [REDACTED] pursuant to the [REDACTED] and the [REDACTED].

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; 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 [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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 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 to assist in 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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (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 [REDACTED] on a recognised [REDACTED] 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 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 [REDACTED] on the [REDACTED]; (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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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 [REDACTED] on the [REDACTED] 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 [REDACTED] and the [REDACTED] 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 [REDACTED], our Company has amended our Articles to comply with the [REDACTED]. In particular, our Articles provide that, except for certain exceptions permitted under the [REDACTED] or the [REDACTED], 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 [REDACTED], 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;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (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 [REDACTED], 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 [REDACTED] 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.

SHARE CAPITAL

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 [REDACTED], the total number of Shares authorised to be issued by our Company pursuant to our Articles will be [REDACTED] Shares.

Issued share capital

Assuming the [REDACTED] is not exercised, the number of Shares issued by our Company immediately upon completion of the [REDACTED] will be as follows:

Issued and to be issued:	
179,170,092	Shares in issue as at the date of this [REDACTED]
	Share to be issued pursuant to the [REDACTED] (excluding any
[REDACTED]	Shares which may be issued under the [REDACTED])
[REDACTED]	Total

Assuming the [REDACTED] is exercised in full, the share capital of our Company immediately upon completion of the [REDACTED] will be as follows:

Issued and to be issued:	
179,170,092	Shares in issue at the date of this [REDACTED]
	Share to be issued pursuant to the [REDACTED] (including all
[REDACTED]	Shares which may be issued under the [REDACTED])
[REDACTED]	Total

Assumptions

This table assumes the [REDACTED] 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 Directors as referred to below or otherwise.

Ranking

The [REDACTED] and the Shares that may be issued pursuant to the [REDACTED] 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 after the date of this [REDACTED].

SHARE CAPITAL

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 Directors have been granted with the Issuing Mandate to allot, [REDACTED] and [REDACTED] in 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 [REDACTED]; and
- (b) the aggregate number of Shares repurchased by our Company, if any, under the Repurchase Mandate referred to below.

The aggregate nominal value of the 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 scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles; or (iii) any specific authority granted by the Shareholders in general meeting(s).

The Issuing Mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next AGM; 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 an ordinary resolution of our Shareholders in a general meeting.

For the avoidance of doubt, the Issuing Mandate grants power to our Directors to [REDACTED], allot and [REDACTED] 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 [10 March] 2015” in this [REDACTED].

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 [REDACTED] 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.

SHARE CAPITAL

Our Directors have undertaken to the [REDACTED] 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 [REDACTED] in relation to pre-emptive rights and the Issuing Mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have 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 [REDACTED].

The Repurchase Mandate only relates to repurchases made on the [REDACTED], or any other [REDACTED] on which the Shares are [REDACTED] (and which is recognised by the [REDACTED] and the [REDACTED] for this purpose), and which are made in accordance with all applicable laws (in Japan or otherwise) and requirements of the [REDACTED]. Further information required by the [REDACTED] to be included in this [REDACTED] 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; 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 an ordinary resolution of our Shareholders in a general meeting.

Upon [REDACTED], repurchases on the [REDACTED] will be effected under the Repurchase Mandate granted to our Directors by our Shareholders on [10 March] 2015 in compliance with Rule 10.06 of the [REDACTED] 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 a market transaction etc.* (市場取引等) with a resolution of our Board of Directors (so long as such repurchases comply with the applicable requirements under the [REDACTED]), allowing our Directors 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 [REDACTED], which is not a securities exchange in Japan, is a market transaction

SHARE CAPITAL

etc.* (市場取引等). Given the lack of judicial precedent, our Directors have undertaken to the [REDACTED] that they will not exercise the Repurchase Mandate to repurchase our Shares on the [REDACTED] unless there is clear judicial authority allowing us to make repurchases on the [REDACTED] thereunder.

We will comply with the requirements in respect of the Repurchase Mandate under the Rule 10.06 of the [REDACTED].

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.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED], 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 [REDACTED], 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 as at 24 December 2014		Interests held immediately upon completion of the [REDACTED]	
		Number	Approximate percentage	Number	Approximate percentage
Our Chairman	Beneficial interest ⁽¹⁾	976,002	25.1%	[REDACTED]	[REDACTED]%
Tatsuo TANIGUCHI (谷口龍雄) . .	Beneficial interest; custodian ⁽²⁾	973,000	24.8%	[REDACTED]	[REDACTED]%
Masataka TANIGUCHI (谷口晶貴)	Beneficial interest; custodian ⁽³⁾	659,000	17.0%	[REDACTED]	[REDACTED]%
Yoshihiro TEI (鄭義弘) [#] (also known as JEONG Jungwung).	Beneficial interest; custodian ⁽⁴⁾	428,000	11.0%	[REDACTED]	[REDACTED]%
SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行) . . .	Trustee ^{(2), (3), (4)}	996,250	25.6%	[REDACTED]	[REDACTED]%
ESOA	Custodian ⁽⁵⁾	269,000	6.9%	[REDACTED]	[REDACTED]%
Seiai HATOYAMA (鳩山正愛) . . .	Interest of a spouse ⁽⁶⁾	976,002	25.1%	[REDACTED]	[REDACTED]%
Hideko TANIGUCHI (谷口秀子) . .	Interest of a spouse ⁽⁷⁾	973,000	24.8%	[REDACTED]	[REDACTED]%
Eiko TANIGUCHI (谷口栄子). . . .	Interest of a spouse ⁽⁸⁾	659,000	17.0%	[REDACTED]	[REDACTED]%
Keie TEI (鄭慶恵)	Interest of a spouse ⁽⁹⁾	428,000	11.0%	[REDACTED]	[REDACTED]%
Hidenori TANIGUCHI (谷口秀憲) .	Interest of a child ⁽¹⁰⁾	976,002	25.1%	[REDACTED]	[REDACTED]%
Yuryon TANIGUCHI (谷口有鈴) . .	Interest of a child ⁽¹⁰⁾	976,002	25.1%	[REDACTED]	[REDACTED]%
Hirohide TANIGUCHI (谷口博秀) .	Interest of a child ⁽¹⁰⁾	976,002	25.1%	[REDACTED]	[REDACTED]%
Yuri TANIGUCHI (谷口裕里)	Interest of a child ⁽¹⁰⁾	976,002	25.1%	[REDACTED]	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

Name of shareholder	Capacity/ Nature of interest	Interests held as at 24 December 2014		Interests held immediately upon completion of the [REDACTED]	
		Number	Approximate percentage	Number	Approximate percentage
Masahide TEI (鄭將英) [#] (also known as JEONG Jangyeong)	Interest of a child; beneficial interest ⁽¹¹⁾	428,000	11.0%	[REDACTED]	[REDACTED]%
Akinori TEI (鄭敬憲) [#] (also known as JEONG Kyeongheon)	Interest of a child; beneficial interest ⁽¹¹⁾	428,000	11.0%	[REDACTED]	[REDACTED]%

Notes:

- (1) The interests held by our Chairman shown above include [REDACTED] Shares held in his own name for his own benefit and [REDACTED] 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) [REDACTED] Shares held in his own name for his own benefit, (ii) [REDACTED] 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) [REDACTED] 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) [REDACTED] Shares held by the TT Family Trust for the benefit of his children, namely 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). 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 the Shares held by the TT Family Trust. The interests held by 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) [REDACTED] Shares held in his own name for his own benefit; (ii) [REDACTED] 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) [REDACTED] Shares held by the MT Family Trust for the benefit of his children, namely 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). 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 the Shares held by the MT Family Trust. The interests held by 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)[#] (also known as JEONG Jungwung) shown above include (i) [REDACTED] Shares held in his own name for his own benefit; (ii) [REDACTED] 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)[#] (also known as JEONG Jungwung); and (iii) [REDACTED] Shares held by the YT Family Trust for the benefit of his children, namely Mr. Akinori TEI (鄭敬憲)[#] (also known as JEONG Kyeongheon) and Mr. Masahide TEI (鄭將英)[#] (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)[#] (also known as JEONG Jungwung) is entitled to exercise the voting rights attached the Shares held by the YT Family Trust. The interests held by the YT Family Trust are equally distributed among the two beneficiaries under the YT Family Trust.

SUBSTANTIAL SHAREHOLDERS

- (5) The ESOA is the registered owner of [REDACTED] Shares held for the benefits 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.
- (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 [REDACTED].
- (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 [REDACTED].
- (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 [REDACTED].
- (9) Mrs. Keie TEI (鄭慶恵) 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 [REDACTED].
- (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 [REDACTED].
- (11) Ms. Masahide TEI (鄭將英)[#] and Mr. Akinori TEI (鄭敬憲)[#] 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 [REDACTED]. 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 [REDACTED], our Directors are not aware of any persons who will, immediately following completion of the [REDACTED], 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 [REDACTED], 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.

DIRECTORS AND SENIOR MANAGEMENT

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
Executive Director					
Hisanori TANIGUCHI (谷口久徳) (also known as Mr. JEONG Seonggi ^(#)) ⁽²⁾	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
Independent Non-executive Directors					
Hiroaki MORITA (森田弘昭)	78	Independent Non-executive Director	N/A ⁽¹⁾	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 ⁽¹⁾	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 ⁽¹⁾	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 ⁽¹⁾	28 November 2014	Supervising the overall management and business operations of our Group; chairman of our Audit Committee

DIRECTORS AND SENIOR MANAGEMENT

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 member of our senior management and an associate of him under the [REDACTED]. He is also a person acting in concert with him within the meanings of the [REDACTED].

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) (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
Hidehori 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

DIRECTORS AND SENIOR MANAGEMENT

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) ⁽¹⁾	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

Notes:

- (1) Mr. Tatsuo TANIGUCHI (谷口龍雄) is a brother of our Chairman and an associate of our Chairman under the [REDACTED]. He is also a person acting in concert with our Chairman within the meanings of the [REDACTED].
- (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) (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

DIRECTORS AND SENIOR MANAGEMENT

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-ins¹), 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 July 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・トラステイ・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 [REDACTED]% of the voting rights in our Company upon completion of the [REDACTED].

¹ Represents the amount received from pachinko balls and pachislot tokens rented to customers.

DIRECTORS AND SENIOR MANAGEMENT

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 [REDACTED], 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 [REDACTED] 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 [REDACTED].

Mr. Morita graduated from the 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 [REDACTED], Mr. Nakayama is an Independent Non-executive Director.

Mr. Nakayama joined Kaneka Corporation* (株式会社カネカ), a listed company on both The Tokyo Stock Exchange (4118:JP) and Nagoya Stock Exchange (4118:JP) that 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* (株式会社カネカ), Mr. Nakayama acquired experiences in on-going compliance matters and corporate governance of a listed corporation in Japan. Until November 2006, Mr. Nakayama also

DIRECTORS AND SENIOR MANAGEMENT

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 [REDACTED].

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 [REDACTED], 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. Morita fulfils the independence requirements under Rule 3.13 of the [REDACTED].

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 [REDACTED], 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

DIRECTORS AND SENIOR MANAGEMENT

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 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 [REDACTED].

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 [REDACTED].

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 execute 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Akinori OHISHI (大石 明德)

Executive officer

Mr. Ohishi, aged 49, 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 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 the 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 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 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 [REDACTED], Mr. Morata is interested in [REDACTED] Shares, representing approximately [REDACTED]% of our total number of issued Shares.

DIRECTORS AND SENIOR MANAGEMENT

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 [REDACTED]. 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 [REDACTED]. See “Relationship with our Controlling Shareholders — Controlling Shareholders Acting in Concert” for details.

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.

DIRECTORS AND SENIOR MANAGEMENT

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 the Fukushima University* (福島大学) in March 1974.

JOINT COMPANY SECRETARIES

Pursuant to Rule 3.28 and Rule 8.17 of the [REDACTED], 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 [REDACTED], capable of discharging the functions of a company secretary. The [REDACTED] 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 [REDACTED], 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 the Tokyo office of PricewaterhouseCoopers and assisted a number of Japanese institutions in 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 [REDACTED].

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.

DIRECTORS AND SENIOR MANAGEMENT

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 [REDACTED].

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.

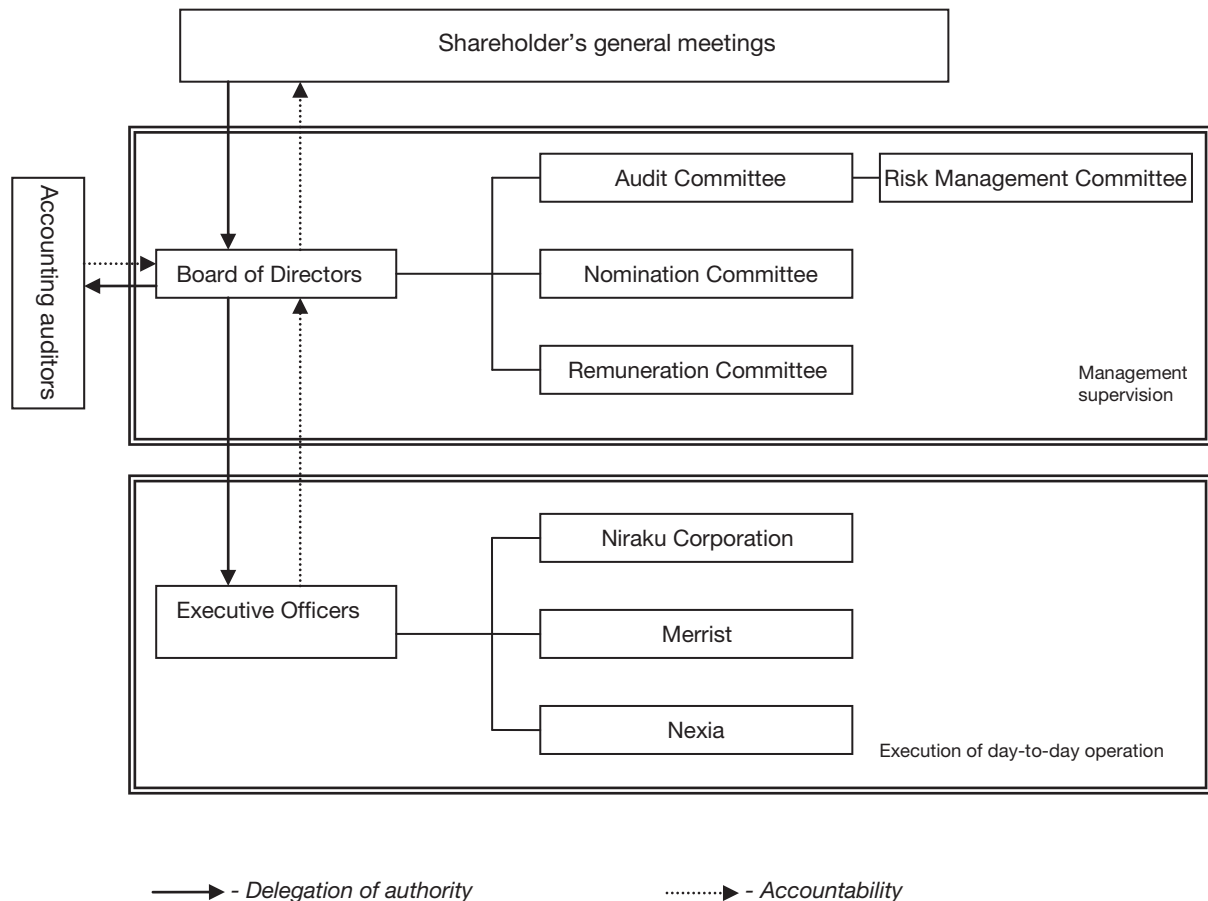
Ms. Ng currently serves as a joint company secretary of China Shipping Container Lines Co., Ltd. (2866:HK) and Tian Ge Interactive Holdings Ltd. (1980:HK). The shares of both companies are listed on the Stock Exchange.

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, 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 [REDACTED] require a [REDACTED] 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

DIRECTORS AND SENIOR MANAGEMENT

is primarily supervisory and strategic. Our Executive Officers are entrusted by our Board of Directors with tasks of business execution, which are subject to the oversight of our Board of Directors 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 of Directors.

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 Board of Directors, which 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 [REDACTED], 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 [REDACTED] with the exception for Code A.2.1, which requires the roles of chairman and chief executive be in 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 upon [REDACTED]

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Our Board delegates certain responsibilities to our Audit Committee, Remuneration Committee and Nomination Committee. In accordance with the Japan Companies Act, the [REDACTED], 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 [REDACTED], we have incorporated the contents required under paragraph C3 of the Corporate Governance Code as well as Rule 3.22 of the [REDACTED] into the written rules of our Audit Committee on [10 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 [REDACTED]. 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 [REDACTED], we have incorporated the contents required under paragraph B1 of the Corporate Governance Code as well as Rule 3.26 of the [REDACTED] into the written rules of our Remuneration Committee on [10 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, determine the remuneration package of our Directors, Executive Officers and senior management, and evaluate and make recommendations on employee benefits arrangements.

Nomination Committee

We established our Nomination Committee pursuant to the Japan Companies Act on 25 June 2014. In preparation for the [REDACTED], we have incorporated the contents required under paragraph A5 of the Corporate Governance Code into the written rules of our Nomination Committee on [10 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.

DIRECTORS AND SENIOR MANAGEMENT

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 terms of reference 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), 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 money laundering 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 [REDACTED]% of our total number of issued Shares immediately upon completion of the [REDACTED] 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 [REDACTED], 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 Directors, 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 prior to the date of this [REDACTED]. Except as disclosed in this [REDACTED], 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 [REDACTED]. As at the Latest Practicable Date, except as disclosed in this [REDACTED], each of our Directors did not have any interest in the Shares within the meaning of [REDACTED] of the [REDACTED].

Further, save as disclosed in this [REDACTED], 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 discussed pursuant to Rule 13.51(2) of the [REDACTED].

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.

DIRECTORS AND SENIOR MANAGEMENT

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 [REDACTED].

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. These 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 [REDACTED], 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 [REDACTED].

Save as disclosed in this [REDACTED], (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.

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 [REDACTED], 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.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser pursuant to Rule 3A.19 of the [REDACTED]. Pursuant to Rule 3A.23 of the [REDACTED], 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 [REDACTED], is contemplated including share issues and share repurchases;
- where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this [REDACTED] or where our business activities, developments or results deviate from any forecast, estimate, or other information in this [REDACTED]; and
- where the [REDACTED] makes an inquiry of us in respect of unusual price movement and trading volume or other issues under Rule 13.10 of the [REDACTED].

The terms of the appointment shall commence on the [REDACTED] 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 [REDACTED] and such appointment shall be subject to extension by mutual agreement.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Our Strategies” for details of our future plans.

USE OF [REDACTED]

We estimate that the [REDACTED] of the [REDACTED] (after deducting [REDACTED] fees and estimated expenses payable by us in relation to the [REDACTED]) will be approximately HK\$[REDACTED] (equivalent to approximately ¥[REDACTED]) (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range, and that the [REDACTED] is not exercised). We currently intend to apply the [REDACTED] as follows:

- (1) approximately HK\$[REDACTED] (equivalent to approximately ¥[REDACTED]) (being [REDACTED]% of the [REDACTED]) 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 in Northeast Honshu (本州島東北) and to extend our leading market position” for details;

- (2) approximately HK\$[REDACTED] (equivalent to approximately ¥[REDACTED]) (being [REDACTED]% of the [REDACTED]) 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\$[REDACTED] (equivalent to approximately ¥[REDACTED]) (being [REDACTED]% of the [REDACTED]) for working capital and other general corporate purposes of our Group.

If the final [REDACTED] is at the high-end of the indicative [REDACTED] range (being HK\$[REDACTED] per Share), the [REDACTED] will increase by approximately HK\$[REDACTED] million (equivalent to approximately ¥[REDACTED]). If the final [REDACTED] is at the low-end of the indicative [REDACTED] range (being HK\$[REDACTED] per Share), the [REDACTED] will decrease by approximately HK\$[REDACTED] (equivalent to approximately ¥[REDACTED]). In such event, we will increase or decrease the intended use of the [REDACTED] for the above purpose on a pro-rata basis.

FUTURE PLANS AND USE OF PROCEEDS

If the [REDACTED] is exercised in full, the [REDACTED] will increase to approximately HK\$[REDACTED] million (equivalent to approximately ¥[REDACTED]), assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] range. If the [REDACTED] is set at the high-end or low-end of the proposed [REDACTED] range, the [REDACTED], including the [REDACTED] from the exercise of the [REDACTED], will increase or decrease by approximately HK\$[REDACTED] (equivalent to approximately ¥[REDACTED]) or HK\$[REDACTED] (equivalent to approximately ¥[REDACTED]), respectively. In such event, we will increase or decrease the allocation of the [REDACTED] to the above purposes on a pro-rata basis.

To the extent that the [REDACTED] are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such [REDACTED] into interest-bearing bank accounts with licensed banks and/or financial institutions.

The application of the [REDACTED] 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 [REDACTED] are not immediately applied to the above purposes, we intend to deposit the [REDACTED] 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.

UNDERWRITING

HONG KONG [REDACTED]

The Hong Kong [REDACTED] are:

[REDACTED]

INTERNATIONAL [REDACTED]

The International [REDACTED] are expected to be:

[REDACTED]

[REDACTED] ARRANGEMENTS AND EXPENSES

[REDACTED]

Hong Kong [REDACTED]

[REDACTED]

Grounds for termination

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

Undertakings to the [REDACTED] pursuant to the [REDACTED]

Undertakings by us

Pursuant to Rule 10.08 of the [REDACTED], except pursuant to the [REDACTED] (including pursuant to the [REDACTED]) or any [REDACTED], capital reduction or consolidation or sub-division of Shares, we will not, at any time within six months from the [REDACTED], 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 [REDACTED]).

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the [REDACTED], each of our Controlling Shareholders has jointly and severally undertaken to each of us, the [REDACTED], the Sole Sponsor, the [REDACTED] and the [REDACTED] except pursuant to the [REDACTED] (including pursuant to the [REDACTED]) or the [REDACTED], that he or it will not, and shall procure that any other relevant registered holder(s) of the Shares, any 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 [REDACTED] or unless otherwise in compliance with applicable requirements of the [REDACTED]:

- (a) in the period commencing on the date of this [REDACTED] and ending on the date which is six months from the [REDACTED] (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 [REDACTED] to be the beneficial owner (as defined in Rule 10.07(2) of the [REDACTED]) (“**Parent Shares**”); or
- (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 [REDACTED]).

UNDERWRITING

Further, pursuant to Note (3) to Rule 10.07(2) of the [REDACTED], each of our Controlling Shareholders has undertaken to us and to the [REDACTED] 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 [REDACTED] 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 [REDACTED] as soon as possible after being so informed.

Undertakings pursuant to the [REDACTED]

Undertakings by our Company

[REDACTED]

UNDERWRITING

[REDACTED]

Undertakings by our Controlling Shareholders

[REDACTED]

UNDERWRITING

[REDACTED]

Indemnity

[REDACTED]

UNDERWRITING

The [REDACTED]

[REDACTED]

[REDACTED] commission and expenses

[REDACTED]

UNDERWRITING

[REDACTED]’ interests in our Company

[REDACTED]

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 [REDACTED].

ACTIVITIES BY SYNDICATE MEMBERS

[REDACTED]

UNDERWRITING

[REDACTED]

RESTRICTIONS ON THE [REDACTED]

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

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HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

APPENDIX I

ACCOUNTANT’S REPORT

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 [REDACTED]. It is prepared and addressed to the directors of the Company and to the [REDACTED] pursuant to the requirements of Auditing Guideline 3.340 “[REDACTED] and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers]

[Draft]

[Date]

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*

[REDACTED]

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 [REDACTED] of the Company dated [date] (the “[REDACTED]”) [REDACTED].

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”).

APPENDIX I

ACCOUNTANT’S REPORT

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 “[REDACTED] and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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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 [REDACTED], 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.

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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

		The Group				
		Year ended 31 March			Six months ended 30 September	
	Note	2012	2013	2014	2013	2014
		¥ million	¥ million	¥ million	¥ million (unaudited)	¥ million
Revenue	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	(3,319)	(4,126)	(4,636)	(2,013)	(2,808)
Operating profit		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	9	(728)	(657)	(686)	(340)	(269)
Profit before income tax		6,307	6,485	6,008	2,683	1,627
Income tax expense	10	(2,978)	(2,720)	(2,310)	(1,060)	(690)
Profit for the year/period attributable to shareholders of the Company		<u>3,329</u>	<u>3,765</u>	<u>3,698</u>	<u>1,623</u>	<u>937</u>
Earnings per share for profit attributable to shareholders of the Company						
- 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>

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ACCOUNTANT’S REPORT

	The Group				
	Year ended 31 March			Six months ended 30 September	
	2012	2013	2014	2013	2014
	¥ million	¥ million	¥ million	¥ million (unaudited)	¥ million
Note					
Other comprehensive income/(loss)					
Item that may be reclassified to profit or loss					
Change in value of financial assets through other comprehensive income	16	124	433	163	(39)
Total comprehensive income for the year/ period attributable to the shareholders of the Company	<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 shareholders on [10 March 2015] because the proposed sub-division of issued shares has not become effective as of the date of this report.

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 March			As at 30 September
	Note	2012	2013	2014	2014
		¥ million	¥ million	¥ million	¥ million
ASSETS					
Non-current assets					
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>
Current assets					
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>
Total assets		<u>45,183</u>	<u>42,194</u>	<u>46,905</u>	<u>49,086</u>

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		As at 31 March			As at 30 September
	Note	2012	2013	2014	2014
		¥ million	¥ million	¥ million	¥ million
EQUITY					
Equity attributable to shareholders of the Company					
Share capital.....	24	10	10	10	10
Reserves.....	25	18,638	17,842	21,790	20,869
Total equity		18,648	17,852	21,800	20,879
LIABILITIES					
Non-current liabilities					
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
		10,523	13,605	16,154	15,582
Current liabilities					
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
		16,012	10,737	8,951	12,625
Total liabilities		26,535	24,342	25,105	28,207
Total equity and liabilities ...		45,183	42,194	46,905	49,086
Net current (liabilities)/assets					
		(1,164)	(877)	3,018	965
Total assets less current liabilities					
		29,171	31,457	37,954	36,461

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STATEMENTS OF FINANCIAL POSITION

		As at 31 March		As at 30 September
	Note	2013	2014	2014
		¥ million	¥ million	¥ million
ASSETS				
Non-current assets				
Investments in subsidiaries	14	16,286	16,286	16,286
Current assets				
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
Total assets		16,348	16,500	17,335
EQUITY				
Share capital	24	10	10	10
Reserves	25	12,834	13,352	13,579
Total equity		12,844	13,362	13,589
LIABILITIES				
Non-current liabilities				
Borrowings	28	3,114	2,779	2,608
Other payables	27	8	7	7
		3,122	2,786	2,615
Current liabilities				
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
Total liabilities		3,504	3,138	3,746
Total equity and liabilities		16,348	16,500	17,335
Net current liabilities		(320)	(138)	(82)
Total assets less current liabilities		15,966	16,148	16,204

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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
Balance at 1 April 2011	10	12,844	(15,999)	82	(7)	18,483	15,413
Comprehensive income							
Profit for the year	—	—	—	—	—	3,329	3,329
Other comprehensive income							
Financial assets at fair value through other comprehensive income, net of tax	—	—	—	—	16	—	16
Total comprehensive income for the year	—	—	—	—	16	3,329	3,345
Dividend	—	—	—	10	—	(120)	(110)
Total transactions with shareholders	—	—	—	10	—	(120)	(110)
Balances at 31 March 2012 and 1 April 2012	10	12,844	(15,999)	92	9	21,692	18,648
Comprehensive income . . .							
Profit for the year	—	—	—	—	—	3,765	3,765
Other comprehensive income							
Financial assets at fair value through other comprehensive income, net of tax	—	—	—	—	124	—	124
Total comprehensive income	—	—	—	—	124	3,765	3,889
Dividend	—	—	—	11	—	(121)	(110)
Purchase of treasury shares (Note 25(e))	—	—	—	—	—	(4,575)	(4,575)
Total transactions with shareholders	—	—	—	11	—	(4,696)	(4,685)
Balance at 31 March 2013	10	12,844	(15,999)	103	133	20,761	17,852

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	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
Balance at 1 April 2013	10	12,844	(15,999)	103	133	20,761	17,852
Comprehensive income							
Profit for the year	—	—	—	—	—	3,698	3,698
Other comprehensive income							
Financial assets at fair value through other comprehensive income, net of tax	—	—	—	—	433	—	433
Total comprehensive income for the year	—	—	—	—	433	3,698	4,131
Dividend	—	—	—	4	—	(187)	(183)
Total transactions with shareholders	—	—	—	4	—	(187)	(183)
Balances at 31 March 2014 and 1 April 2014	10	12,844	(15,999)	107	566	24,272	21,800
Comprehensive income							
Profit for the period	—	—	—	—	—	937	937
Other comprehensive loss							
Financial assets at fair value through other comprehensive income, net of tax	—	—	—	—	(39)	—	(39)
Total comprehensive (loss)/income for the period	—	—	—	—	(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)
Total transactions with shareholders	—	(1,110)	(29)	—	—	(680)	(1,819)
Balance at 30 September 2014	10	11,734	(16,028)	107	527	24,529	20,879

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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
Balance at 1 April 2013 . . .	10	12,844	(15,999)	103	133	20,761	17,852
Comprehensive income							
Profit for the period	—	—	—	—	—	1,623	1,623
Other comprehensive income							
Financial assets at fair value through other comprehensive income, net of tax	—	—	—	—	163	—	163
Total comprehensive income for the period . . .					163	1,623	1,786
Dividend	—	—	—	—	—	(183)	(183)
Total transactions with shareholders	—	—	—	—	—	(183)	(183)
Balance at 30 September 2013 (unaudited)	10	12,844	(15,999)	103	296	22,201	19,455

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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
Cash flows from operating activities						
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		11,464	7,684	6,280	1,924	3,164
Cash flows from investing activities						
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)

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	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		(695)	(2,902)	(1,390)	(962)	(734)
Cash flows from financing activities						
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		(110)	(110)	(183)	(183)	(183)
Net cash (used in)/generated from financing activities		(3,815)	(10,458)	(3,390)	80	(837)
Net increase/(decrease) in cash and cash equivalents		6,954	(5,676)	1,500	1,042	1,593
Cash and cash equivalents at beginning of the year/period		5,631	12,585	6,909	6,909	8,409
Cash and cash equivalents at end of the year/period		12,585	6,909	8,409	7,951	10,002

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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 “[REDACTED] 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 [REDACTED] 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⁽¹⁾, Mr. Motohiro Tei⁽¹⁾, Ms. Eijun Tei⁽¹⁾, Ms. Rika Tei⁽¹⁾ 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.

[REDACTED]. 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.

(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.

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- (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 28 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

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had resolved to acquire the Nakano Property through Niraku Corporation [REDACTED]. 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
Directly held								
Niraku Corporation	Japan 27 August 1969	Pachinko and pachislot hall operations	Limited liability company	257 million Japanese Yen	100%	100%	100%	100%
Indirectly held								
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 there are no statutory requirements to issue statutory financial statements in Japan.

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1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the [REDACTED] Business is held by the Controlling Shareholders. The [REDACTED] 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 [REDACTED] 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 [REDACTED] Business with no change in management of such business and the ultimate owners of the [REDACTED] 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 [REDACTED] 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.

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(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 adopt IFRS 9 (2014) from 1 April 2011, being its date of transition to IFRS.

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(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.

		Effective for accounting year beginning on or after
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

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.

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(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.

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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.

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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.

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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

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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 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.

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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.

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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.

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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.

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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.

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(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 represent the amount received from pachinko balls and pachislot tokens rented to customers. Gross payouts represent the aggregate costs of G-prizes and general prizes exchanged by customers taking into consideration of prizes mark-up and the value of any unutilised balls and tokens. 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.

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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.

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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.

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(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 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Impact on other components of equity				
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.

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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.

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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.

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
The Group					
As at 31 March 2012					
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>
As at 31 March 2013					
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>

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	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
As at 31 March 2014					
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>
As at 30 September 2014					
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>
The Company					
As at 31 March 2013					
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>
As at 31 March 2014					
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>

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	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
As at 30 September 2014					
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.

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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).

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- 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
As at 31 March 2012			
Assets			
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>
Liabilities			
Derivative financial liabilities			
- Interest rate swaps	—	55	55
As at 31 March 2013			
Assets			
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>
Liabilities			
Derivative financial liabilities			
- Interest rate swaps	—	44	44
As at 31 March 2014			
Assets			
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>

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	Level 1	Level 2	Total
	¥ million	¥ million	¥ million
Liabilities			
Derivative financial liabilities			
- Interest rate swaps	—	48	48
As at 30 September 2014			
Assets			
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 securities	1,474	2	1,476
	<u>1,474</u>	<u>699</u>	<u>2,173</u>
Liabilities			
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.

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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.

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(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
Revenue					
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.

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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
Segment revenue from external customers	30,352	—	30,352
Segment results	6,445	(138)	6,307
Corporate expenses			—
Profit before income tax			6,307
Income tax expense			(2,978)
Profit for the year			<u>3,329</u>
Other segment items			
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>

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	Year ended 31 March 2013		
	Pachinko and pachislot hall operations	Others	Total
	¥ million	¥ million	¥ million
Segment revenue from external customers	32,667	84	32,751
Segment results	6,508	(12)	6,496
Corporate expenses			(11)
Profit before income tax			6,485
Income tax expense			(2,720)
Profit for the year			<u>3,765</u>
Other segment items			
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		
	Pachinko and pachislot hall operations	Others	Total
	¥ million	¥ million	¥ million
Segment revenue from external customers	33,698	149	33,847
Segment results	6,115	1	6,116
Corporate expenses			(108)
Profit before income tax			6,008
Income tax expense			(2,310)
Profit for the year			<u>3,698</u>
Other segment items			
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>

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Six months ended 30 September 2013			
	Pachinko and pachislot hall operations	Others	Total
	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)
Segment revenue from external customers	16,354	75	16,429
Segment results	2,705	6	2,711
Corporate expenses			(28)
Profit before income tax			2,683
Income tax expense			(1,060)
Profit for the period			<u>1,623</u>
Other segment items			
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			
	Pachinko and pachislot hall operations	Others	Total
	¥ million	¥ million	¥ million
Segment revenue from external customers	15,492	80	15,572
Segment results	1,950	(4)	1,946
Corporate expenses			(319)
Profit before income tax			1,627
Income tax expense			(690)
Profit for the period			<u>937</u>
Other segment items			
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>

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The segment assets as at 31 March 2012, 2013 and 2014 and at 30 September 2014 are as follows:

	Pachinko and pachislot hall operations	Others	Total
	¥ million	¥ million	¥ million
As at 31 March 2012			
Segment assets	41,672	536	42,208
Unallocated assets			1,412
Deferred income tax assets			1,563
Total assets			<u>45,183</u>
As at 31 March 2013			
Segment assets	38,097	635	38,732
Unallocated assets			1,850
Deferred income tax assets			1,612
Total assets			<u>42,194</u>
As at 31 March 2014			
Segment assets	42,020	618	42,638
Unallocated assets			2,805
Deferred income tax assets			1,462
Total assets			<u>46,905</u>
	Pachinko and pachislot hall operations	Others	Total
	¥ million	¥ million	¥ million
As at 30 September 2014			
Segment assets	43,143	683	43,826
Unallocated assets			3,222
Deferred income tax assets			2,038
Total assets			<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.

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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)	
Other income					
Rental income	89	161	149	76	74
Income from expired prepaid 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>
Other losses, net					
(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.

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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
Service fee to G-Prize 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

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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.

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(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

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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
	<u>123</u>	<u>—</u>	<u>—</u>	<u>4</u>	<u>127</u>

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
	<u>61</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>61</u>

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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	—
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.

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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>

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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
				(unaudited)	
HK\$500,001 to HK\$1,000,000 (equivalent to ¥5,000,001 to ¥10,000,000).....	—	—	—	1	1
HK\$1,000,001 to HK\$1,500,000 (equivalent to ¥10,000,001 to ¥15,000,000).....	—	—	1	—	—
HK\$1,500,001 to HK\$2,000,000 (equivalent to ¥15,000,001 to ¥20,000,000).....	1	—	—	—	—
HK\$2,000,001 to HK\$2,500,000 (equivalent to ¥20,000,001 to ¥25,000,000)	1	—	—	—	—
HK\$3,500,001 to HK\$4,000,000 (equivalent to ¥35,000,001 to ¥40,000,000).....	2	—	—	—	—
HK\$61,500,001 to HK\$62,000,000 (equivalent to ¥615,000,001 to ¥620,000,000).....	—	1	—	—	—
	<u>4</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

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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)	
Finance income					
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>
Finance costs					
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>
Finance costs, net	<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.

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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
				(unaudited)	
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.

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Under 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 owners 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.

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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
		110		110		183		183		183

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
At 1 April 2011							
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)
Net book amount	7,353	7,427	4,346	3,036	71	461	22,694
Year ended 31 March 2012							
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)
Closing net book amount	7,253	7,271	4,301	3,351	70	105	22,351

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	Freehold land	Buildings	Leasehold improvements	Equipment and tools	Motor vehicles	Construction in progress	Total
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
At 1 April 2012							
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)
Net book amount	7,253	7,271	4,301	3,351	70	105	22,351
Year ended 31 March 2013							
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)
Closing net book amount	7,400	7,691	4,482	3,998	103	61	23,735
At 1 April 2013							
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)
Net book amount	7,400	7,691	4,482	3,998	103	61	23,735
Year ended 31 March 2014							
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)
Closing net book amount	7,389	9,351	4,568	4,374	83	52	25,817
At 1 April 2014							
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)
Net book amount	7,389	9,351	4,568	4,374	83	52	25,817
Six months ended							
30 September 2014							
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)
Closing net book amount	7,752	9,005	4,375	4,029	68	577	25,806
At 30 September 2014							
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)
Net book amount	7,752	9,005	4,375	4,029	68	577	25,806

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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 ¥148 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 31 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.

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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 31 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.

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15 Investment properties - Group

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
At cost				
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)
At end of year/period	683	669	676	669
At end of year/period				
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
				(unaudited)	
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>

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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;
- Assess 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.

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16 Intangible assets — Group

	Goodwill	Computer software	Total
	¥ million	¥ million	¥ million
At 1 April 2011			
Cost	104	555	659
Accumulated amortisation	—	(438)	(438)
Net book amount	<u>104</u>	<u>117</u>	<u>221</u>
Year ended 31 March 2012			
Opening net book amount	104	117	221
Additions	—	1	1
Amortisation (Note 7)	—	(45)	(45)
Closing net book amount	<u>104</u>	<u>73</u>	<u>177</u>
At 1 April 2012			
Cost	104	556	660
Accumulated amortisation	—	(483)	(483)
Net book amount	<u>104</u>	<u>73</u>	<u>177</u>
Year ended 31 March 2013			
Opening net book amount	104	73	177
Additions	—	15	15
Amortisation (Note 7)	—	(31)	(31)
Closing net book amount	<u>104</u>	<u>57</u>	<u>161</u>
At 1 April 2013			
Cost	104	571	675
Accumulated amortisation	—	(514)	(514)
Net book amount	<u>104</u>	<u>57</u>	<u>161</u>
Year ended 31 March 2014			
Opening net book amount	104	57	161
Additions	—	34	34
Amortisation (Note 7)	—	(28)	(28)
Closing net book amount	<u>104</u>	<u>63</u>	<u>167</u>
At 1 April 2014			
Cost	104	605	709
Accumulated amortisation	—	(542)	(542)
Net book amount	<u>104</u>	<u>63</u>	<u>167</u>

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	Goodwill	Computer software	Total
	¥ million	¥ million	¥ million
Six months ended 30 September 2014			
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>
At 30 September 2014			
Cost	104	625	729
Accumulated amortisation	<u>—</u>	<u>(557)</u>	<u>(557)</u>
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.

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17 Financial instruments by category - Group and Company

	Group		
	As at 31 March		As at
			30 September
	2012	2013	2014
	¥ million	¥ million	¥ million
Financial assets			
Financial assets at fair value			
Fair value through profit or loss	429	546	697
Fair value through other comprehensive income	220	919	1,476
	<u>649</u>	<u>1,465</u>	<u>2,173</u>
Financial assets at amortised cost			
Trade receivables	60	64	52
Deposits and other receivables (including amounts due from directors and a shareholder and amounts due from related companies)	3,467	3,256	3,130
Cash and bank balances	<u>13,485</u>	<u>8,734</u>	<u>11,760</u>
	<u>17,012</u>	<u>12,054</u>	<u>14,942</u>
	<u>17,661</u>	<u>13,519</u>	<u>17,115</u>
Financial liabilities			
Financial liabilities at fair value			
Derivative financial instruments	<u>55</u>	<u>44</u>	<u>38</u>
Other financial liabilities at amortised cost			
Trade payables	347	382	145
Other payables	3,456	3,510	4,195
Borrowings (including amounts due to a shareholder and related companies)	12,374	11,073	14,041
Obligations under finance leases	<u>6,527</u>	<u>6,552</u>	<u>6,898</u>
	<u>22,704</u>	<u>21,517</u>	<u>25,279</u>
	<u>22,759</u>	<u>21,561</u>	<u>25,317</u>

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	Company		
	As at 31 March		As at
			30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
Financial assets			
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>
Financial liabilities			
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.

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(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	<u>—</u>	<u>18</u>	<u>—</u>	<u>18</u>	<u>—</u>	<u>15</u>	<u>—</u>	<u>15</u>

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.

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20 Inventories - Group

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Supplies	<u>412</u>	<u>86</u>	<u>21</u>	<u>40</u>

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	<u>(5)</u>	<u>(5)</u>	<u>(5)</u>	<u>(5)</u>
	<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.

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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 30 September
	As at 31 March			2014
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Non-current portion				
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>

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	Group			
	As at 31 March			As at
				30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
Current portion				
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
Current portion			
Other receivables	<u>—</u>	<u>—</u>	<u>9</u>

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).

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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
Non-current portion				
Bank deposits with maturity over 1 year	142	71	84	119
Current portion				
Bank deposits with maturity over 3 months	558	654	606	539
Pledged bank deposits (Note a)	200	1,100	1,100	1,100
	758	1,754	1,706	1,639
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	13,485	8,734	10,199	11,760

	Company		
	As at 31 March		As at 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
Cash at banks and on hand	62	93	670

Note:

- (a) The pledged bank deposits are held in designated bank accounts mainly for the Group’s banking facilities (Note 28).

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- (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	92	20	4	47
	<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.

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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.

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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
Balance at 1 April 2012	12,844	—	12,844
Profit for the year	—	(10)	(10)
Balances at 31 March 2013 and 1 April 2013	12,844	(10)	12,834
Profit for the year	—	518	518
Balance at 31 March 2014 and 1 April 2014	12,844	508	13,352
Profit for the period	—	1,493	1,493
Total comprehensive income for the period	—	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)
Balance at 30 September 2014	<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.

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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
Non-current portion				
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>
Current portion				
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>

	Company		
	As at 31 March		As at 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
Non-current portion			
Other payables	<u>8</u>	<u>7</u>	<u>7</u>
Current portion			
Other payables	<u>7</u>	<u>1</u>	<u>55</u>

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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
Non-current portion				
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>
Current portion				
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	<u>3,114</u>	<u>2,779</u>	<u>2,608</u>
Total borrowings	<u>3,288</u>	<u>3,129</u>	<u>2,959</u>

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As at 31 March 2012, 2013 and 2014, and at 30 September 2014, the Group’s borrowings were repayable as follows:

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
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>

	Company		
	As at 31 March		As at 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
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:

	Group			
	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>

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	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 [REDACTED].

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

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
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:

Issue date	Principal amount	Interest rate	Due date
	¥ 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	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

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29 Obligations under finance leases - Group

	Group			
	As at 31 March			As at
				30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
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)
Present values of finance lease liabilities	6,527	6,552	7,619	6,898

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)
	4,135	4,158	5,366	4,090

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.

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30 Deferred income tax - Group

The analysis of deferred income tax assets is as follows:

	Group			
	As at 31 March			As at
	2012	2013	2014	30 September
	¥ million	¥ million	¥ million	2014 ¥ million
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:

	Group			
	As at 31 March			As at
	2012	2013	2014	30 September
	¥ million	¥ million	¥ million	2014 ¥ million
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>

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ACCOUNTANT’S REPORT

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>

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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	8	—	8
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	(42)	—	(42)
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	41	—	41
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	351	—	351
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.

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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 30 September
	2013	2014	2014
	¥ million	¥ million	¥ million
Amounts due to Niraku Corporation			
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>

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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>

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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	(69)	(24)	(101)	(85)	(39)
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.

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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:

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
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:

	Group			
	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
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>

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(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	<u>42</u>	<u>15</u>	<u>44</u>	<u>44</u>

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

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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:					
Rental expenses					
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
Interest expenses					
Kyoko Taniguchi	1	3	—	—	—
KAWASHIMA Co., Ltd.	1	—	—	—	—
	<u>2</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>
Interest income					
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>

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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 [REDACTED].

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.

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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
Non-current portion				
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>
Current portion				
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>

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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.

	As at 31 March	
	2012	2013
	¥ million	¥ million
Jukki Limited	70	—
Densho Limited.	70	—
Echo Limited.	70	—
Daiki Limited.	70	—
Hokuyo Kanko Limited	155	—
	435	—

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.

	As at 31 March	
	2012	2013
	¥ million	¥ million
Kyoko Taniguchi	100	—

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.

	As at 31 March			As at 30 September
	2012	2013	2014	2014
	¥ million	¥ million	¥ million	¥ million
KAWASHIMA Co., Ltd.	45	—	—	—
Niraku Investment Inc.	—	—	—	24
	45	—	—	24

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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 the 12 months to 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) Pursuant to the approval from the shareholders dated [10 March 2015], the number of authorised shares to be issued by the Company was increased from 20,000,000 shares to 300,000,000 shares and every issued share of nil par value was sub-divided into 46 shares of nil par value with immediate effect, such that the issued share capital of the Company increased from 3,895,002 shares to 179,170,092 shares.

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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*

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this [REDACTED] 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 October 2014.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

[REDACTED]

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

* 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.* (株式會社ニラク・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 October 2014.

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”.

APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS

Valuation Basis and Assumption

In valuing the properties, we have complied with the requirements set out in Chapter 5 of the Rules Governing the [REDACTED] of Securities on The [REDACTED] of Hong Kong Limited (“[REDACTED]”) published by the [REDACTED] 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.

APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS

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.

APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS

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.

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

Note: Mr. Andrew K.F. Chan is a Registered Professional Surveyor who has extensive experience in Asian countries including Japan.

APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS

SUMMARY OF VALUATIONS

Property	Market value in existing state as at 31 October 2014 (¥)	Attributable interest to the Group (%)	Market value in existing state as at 31 October 2014 attributable to the Group (¥)
Group I – Properties held by the Group for investment in Japan			
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	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
Sub-total of Group I:	724,200,000		724,200,000
Group II – Property owned and operated by the Group in Japan			
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
Sub-total of Group II:	728,000,000		728,000,000
Total:	1,452,200,000		1,452,200,000

APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS

VALUATION CERTIFICATE

Group I – Properties held by the Group for investment in Japan

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2014
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	The property is situated on a site of 456.40 sq m. 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. The property is in the centre of Koriyama city in front of Koriyama station on the JR Tohokuhonsen. The property is held freehold.	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.	¥627,000,000 (100% interest attributable to the Group: ¥627,000,000)

Notes:-

- The owner of the land with an area of 456.40 sq m is NEXIA Inc.* (株式会社ネクシア).
- 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).
- The property is subject to a revolving mortgage with the maximum amount of ¥0.5 billion.
- 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.
- Our key assumptions of the valuation are:

Portion	Market Rent per month	Capitalisation Rate
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.

APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2014
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	The property is situated on a site of 156.71 sq m. 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. 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. The property is held freehold.	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.	¥97,200,000 (100% interest attributable to the Group: ¥97,200,000)

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:

Portion	Market Rent per month	Capitalisation Rate
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.

APPENDIX III VALUATION REPORT ON SELECTED PROPERTY INTERESTS

VALUATION CERTIFICATE

Group II – Property owned and operated by the Group in Japan

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2014
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	The property is situated on a site of 1,014.24 sq m. 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. The property is in the centre of Koriyama city in front of Koriyama station on the JR Tohokuhonsen. The property is held freehold.	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:

Portion	Market Rent per month	Capitalisation Rate
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.

APPENDIX IV SUMMARY OF THE REVIEW OF ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS



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*

[REDACTED]

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.

APPENDIX IV SUMMARY OF THE REVIEW OF ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS

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 equivalents.

APPENDIX IV SUMMARY OF THE REVIEW OF ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS

- 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

APPENDIX IV SUMMARY OF THE REVIEW OF ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS

- 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.

- 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.

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.

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].

APPENDIX IV **SUMMARY OF THE REVIEW OF ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS**

Restriction on Use and Distribution

Our Report is intended solely for the use of the Company in connection with the submission to [REDACTED] and to the [REDACTED] and for inclusion in the [REDACTED] of the Company in connection with its [REDACTED]. 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

Partner

APPENDIX V

SUMMARY OF OUR ARTICLES OF INCORPORATION AND JAPAN CORPORATION LAW

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 [REDACTED]. 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 [REDACTED]. 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 [REDACTED].

Certain provisions under the Japan Companies Act have been amended in June 2014 and these amendments (the “JCA Amendments”) will take effect at a later date to be announced by the relevant Japanese authority.

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 memorandum of association and 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 [10 March] 2015 and will become effective on the [REDACTED]. 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.

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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 is [300,000,000] 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, transfer 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 the internal rules adopted by our Board of Directors from time to time. 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.

APPENDIX V

SUMMARY OF OUR ARTICLES OF INCORPORATION AND JAPAN CORPORATION LAW

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).

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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 issued 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 June 30,

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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 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 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 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 not 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 [REDACTED] upon [REDACTED].

Our Company has no current intention to issue SARs. If we choose to do so upon [REDACTED], we will comply with all applicable laws and regulations including Chapter 17 of the [REDACTED].

(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.

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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.

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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 of Directors 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 [300,000,000] 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 of Directors 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 approval by an ordinary resolution.

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 [10 March] 2015, our Directors have 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 [10 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 [300,000,000] 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.

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For the avoidance of doubt, the Issuing Mandate grants power to our Directors 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 ordinary resolution in our extraordinary general meeting held on [10 March] 2015 approving the Issuing Mandate contained all the required information prescribed under our Articles. Our Directors have undertaken to the [REDACTED] 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 a Third Party 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.

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(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 [REDACTED] 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 [REDACTED] 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;

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- (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 [REDACTED]) has a special interest (as interpreted under the Japan Companies Act) or material interest (as explained under the [REDACTED]) nor shall he/she be counted towards to quorum present at the meeting, unless otherwise permitted under the Japan Companies Act and the [REDACTED].

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.

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(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 [REDACTED] (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.

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(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, the 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.

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(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 [REDACTED]) has a special interest (as interpreted under the Japan Companies Act) or material interest (as explained under the [REDACTED]) nor shall he/she be counted towards to quorum present at the meeting, unless otherwise permitted under the Japan Companies Act and the [REDACTED].

(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*

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(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.

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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.

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(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.

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(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.

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(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

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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).

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(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 14 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.niraku.co.jp and the [REDACTED]’s website at [REDACTED].

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.

(l) Transfer of Shares

Under our Articles and the Japan Companies Act:

See “Key Japan Legal and Regulatory Matters - A. Bearer Shares”.

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(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”.

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(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

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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 [REDACTED] 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 [REDACTED].

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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 [REDACTED].

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 [REDACTED]. 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.

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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.

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(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 held 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.

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Request for additional matters in a meeting agenda

Any Shareholder who has held 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 [REDACTED] 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 an 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 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.

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 [REDACTED] and paragraph 4(4) of Appendix 3 to the [REDACTED], which provide that (i) an [REDACTED] 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 [REDACTED] 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 [REDACTED] of his willingness to be elected, must be at least seven days. We have applied

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for[, and the [REDACTED] 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 [REDACTED] 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 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 a vote against any last-minute amendment thereof.

Casting your votes in different ways

Under the Japan Companies Act, a Shareholder (including a nominee such as [REDACTED]) 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 [REDACTED], 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 [REDACTED]. Shareholders (including nominee companies such as [REDACTED]) 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 [REDACTED].

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

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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;

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- Third Party Allotment 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.

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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.

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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 the Japan Companies Act, we are required to despatch the convocation notice of our AGM at least 14 days prior to the date thereof. Upon [REDACTED], we will, as required under the [REDACTED] 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 [REDACTED];
- (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 [REDACTED]; or (ii) a summary financial report, which will be in compliance with the contents requirements under Rule 13.46(2)(a) of the [REDACTED]. 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

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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.

We have applied to for[, and the [REDACTED] has granted us,] a partial waiver from Rule 13.46(2)(a) of the [REDACTED] and a waiver from strict compliance with paragraph 5 of Appendix 3 to the [REDACTED] so that such that our AGM convocation notice, together with the documents referred to in (a) to (c) above, may be despatched to our Shareholders not less than 14 days before the date of our AGM. This 14-day notice period differs from the 21-day requirements under the [REDACTED]. We consider that the difference is immaterial to our Shareholders and potential [REDACTED] as documents (a) to (c) above will be provided to them on a timely basis, which is the fundamental principle and objective under the [REDACTED].

See “Waivers - B. Additional Waivers - Distribution of Annual Report and Accounts” and “Waivers - B. Additional Waivers - Articles of Incorporation - Accounts” for details and basis of the waivers [granted] to us in this regard.

Upon [REDACTED], our Company will hold a single AGM that fulfils both the requirements under the Companies Act and the [REDACTED].

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;

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- (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.

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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 [REDACTED] 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.

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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 such 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

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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;

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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*

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(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.

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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;

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- (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 splitting 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

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- (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.

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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.

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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:

Under Japan law, there is no specific provision (other than share exchange* (株式交換) set out below) as to the circumstances under which minority Shareholders may be brought out of our Company or may require an offeror to buy out their interests in our Company after a successful takeover or share repurchase. However, our Japan Legal Adviser confirmed that this can be accomplished in the following manner:-

(a) Buying out of minority Shareholders

Under the Companies Ordinance, in case of a successful takeover, minority shareholders have the right to require the person conducting the takeover to acquire Shares held by such minority Shareholders if they have not accepted the takeover offer before the expiry of the offer. Under Japan law, in order to buy out or compulsorily acquire the Shares from minority Shareholders, our Company may adopt certain measures, including:-

- (1) conversion of Shares into class Shares subject to a class-wide call pursuant to which only fractional Shares are provided to minority Shareholders upon our Company exercising its call (as a result, minority Shareholders can only receive cash);
- (2) a merger* (合併) pursuant to which Shares of the surviving (or consolidated) company is not provided to any Shareholders of the dissolving company or only fractional shares of the surviving (or consolidated) company are provided to all minority Shareholders (as a result, minority Shareholders can only receive cash);
- (3) a share exchange* (株式交換) pursuant to which no shares of the wholly-owned parent company is provided to all minority shareholders of the wholly-owned subsidiary (as a result, minority Shareholders can only receive cash);

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- (4) a share transfer* (株式移転) pursuant to which no shares of the wholly-owned parent company is provided to any minority shareholders of the wholly-owned subsidiary or only fractional shares of the wholly-owning parent are provided to all minority shareholders of the wholly-owned subsidiary (as a result, minority Shareholders can only receive cash); and
- (5) a consolidation of Shares pursuant to which only fractional Shares are provided to all minority Shareholders (as a result, minority Shareholders can only receive cash).

In general, according to the Japan Companies Act, each of the above measures may require a special resolution in a general meeting.

Further, there is no restriction in relation to the acquisition price in any transaction set forth under items (1), (2), (3) and (4) above. However, the Japan Companies Act provides dissenting Shareholders with right to receive monetary compensation calculated based on the fair value of our Company's Shares if they dissent to any transaction set forth under items (1), (2), (3) and (4) above prior to the relevant general meeting and actually vote against the relevant resolution of a transaction in the general meeting. In addition, under the JCA Amendments, dissenting Shareholders of a transaction set forth under item (5) above will be entitled to the same appraisal right.

Under the JCA Amendments, where an offeror holds 90% or more of the voting rights in a company, such offeror may compulsorily acquire all of other shareholders from all other shareholders, subject to the approval of the board of directors of the company. In that case, a shareholder may petition a Japanese court to determine the fair price or file a petition to the Japanese court for the cease of the compulsory acquisition under certain circumstances.

(b) Rights of minority Shareholders to request for a compulsory acquisition

Pursuant to Hong Kong law, the minority shareholders of a company may be bought out or may require an offeror to buy out their interests if the offeror acquires nine-tenths in value of the shares for which the offer is made (or if the offer relates to shares of different classes, nine-tenths in value of the shares of that class). Japan law provides that upon an offeror acquiring two-thirds of the voting rights of a company's shares, as long as the offeror is a stock company* (株式会社) or a limited liability company* (合同会社) under the Japan Companies Act, the offeror may compulsorily acquire the shares held by the remaining shareholders by way of a share exchange* (株式交換), subject to shareholders' approval.

While there is no restriction in relation to the compulsory acquisition price, if the compulsory acquisition price is too low, the shareholders may, within three months from the day of the passing of the resolution of the general meetings regarding the compulsory acquisition, claim revocation of the resolution as a grossly improper resolution under the Japan Companies Act. Where a shareholder has objected and voted against a compulsory acquisition resolution in a general meeting, or a shareholder does not have a voting right in the general meeting, such shareholder may request the company to repurchase his shares at a fair price under the Japan

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Companies Act, and if the company and the shareholder are not able to reach an agreement on the fair price within 30 days from the effective date of such compulsory acquisition resolution, such shareholder may petition a court in Japan to determine the fair price within 30 days from the expiry date of the 30-day discussion with the company.

In addition, under the Japan Companies Act, where an offeror acquires 90% or more of the voting rights in a company, the board of directors of the company may approve the acquisition of the remaining shares by way of a share exchange* (株式交換) without shareholders' approval. In that case, in addition to the right to request the company to repurchase his/her shares at a fair price, any shareholder who may suffer disadvantage due to the transaction may also file a petition to a court in Japan to cease the compulsory acquisition on the ground that such compulsory acquisition violates the law and/or the articles of the company or that the compulsory acquisition price is significantly unfair.

Under the JCA Amendments, regardless of whether the offeror is a stock company* (株式会社) or a limited liability company* (有限会社) under the Japan Companies Act or an individual, where an offeror holds 90% or more of the voting rights in a company, such offeror may compulsorily acquire all of other shareholders from all other shareholders, subject to directors' approval. In that case, a shareholder may file a petition to a court in Japan to determine the fair price or to cease the compulsory acquisition under certain circumstances.

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.

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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 and holding 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;

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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 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, 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, or (ii) in case of acquisition, the acquisition 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, or acquiring, our Shares. Such period may be shortened to two weeks if the investment is not related to the safety of Japan.

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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	Hong Kong	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	

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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 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), 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 or acquisition occurs.

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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 [REDACTED] 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 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.

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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.

[REDACTED] Beneficial Owners

Due to the inherent characteristics of [REDACTED], our Company is not able to ascertain the identity, and consequently the citizenship, of the [REDACTED] Beneficial Owners. In addition, our Company does not have the capacity to ascertain the individual shareholding percentage of the [REDACTED] Beneficial Owners. Consequently, Foreign Investors looking to hold their [REDACTED] through [REDACTED] 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 [REDACTED] 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 [REDACTED] Beneficial Owners, instead of [REDACTED]. Under no circumstances would [REDACTED] 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, 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. FOREIGN 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.

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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.

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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 relevant aspects of Japan corporation law are set out in Appendix V to this [REDACTED].

Our registered address in Japan is 1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan and we have established a place of business in Hong Kong at 8th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong. Our Company was registered as an overseas company in Hong Kong 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 of Directors 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 Shares (普通株式). See “History and Corporate Development — Corporate Structure and Development — Group Companies — Our Company” in this [REDACTED] for further 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 [10 March] 2015, our Shareholders have resolved to approve that (i) the number of Shares authorised to be issued by our Company be increased from 20,000,000 Shares to [300,000,000] Shares; and (ii) each issued Share of nil par value be sub-divided into [46] Shares of nil par value with immediate effect so that our total number of issued Shares increased from 3,895,002 Shares to [179,170,092] Shares.

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Assuming that the [REDACTED] becomes unconditional and the [REDACTED] are issued but the [REDACTED] is not exercised, the total number of Shares issued by us will be [REDACTED] Shares, with [REDACTED] Shares remaining unissued.

Assuming that the [REDACTED] is exercised in full, a total of [REDACTED] Shares will have been issued and allotted as fully-paid and [REDACTED] 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 [REDACTED].

(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, the board of directors of Niraku Corporation 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” in this [REDACTED] 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.

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(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 [REDACTED].

4. Reorganisation

In preparation for the [REDACTED], 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 businesses retained by, and 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 private business ventures of the Taniguchi Consortium that are unrelated to our core business of pachinko 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 the Company

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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 the 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 [10 March] 2015

At an extraordinary general meeting of our Company held on [10 March] 2015, our Shareholders resolved that, amongst others:

- (a) conditional upon (1) the [REDACTED] of the [REDACTED] granting the [REDACTED] of, and the permission to [REDACTED] in, the Shares in issue and to be issued pursuant to the [REDACTED] (including any additional Shares which may be issued pursuant to the exercise of the [REDACTED]); (2) the [REDACTED] having been duly agreed between the [REDACTED] and our Company; (3) the execution and delivery of the International [REDACTED] on or around the [REDACTED]; and (4) the obligations of the [REDACTED] under the [REDACTED] Agreements having become unconditional and not having been terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in such agreements:
 - (i) the [REDACTED] was approved and our Directors were authorised to approve the issue and allotment of the Shares, as the case may be, pursuant to the [REDACTED] on and subject to the terms and conditions thereof as set out in this [REDACTED] and the [REDACTED];

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- (ii) the [REDACTED] of the Shares on the [REDACTED] of the [REDACTED] was approved and our Directors were authorised to implement such [REDACTED];
- (iii) the [REDACTED] was approved and our Directors were authorised to effect the same and to issue and allot the [REDACTED] upon exercise of the [REDACTED];
- (iv) the issue and allotment of the [REDACTED] and up to [REDACTED] Shares upon exercise of the [REDACTED] were approved;
- (v) the Issuing Mandate, which is a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than pursuant to (i) a rights issue; or (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles; or (iii) 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 [REDACTED], such mandate to remain in effect until the conclusion of our next AGM unless by ordinary resolution passed in 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 laws in Japan to be held, or when revoked or varied by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first. The Issuing Mandate is subject to our Articles 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 [REDACTED] prior to the issue and allotments of Shares thereunder;
- (vi) the Repurchase Mandate, which is a general unconditional mandate was given to our Directors authorising them to exercise all powers to repurchase on the [REDACTED] or on any other approved [REDACTED] on which our securities may be listed and which is recognised by the [REDACTED] and [REDACTED] for this purpose, subject to and in accordance with all applicable laws and/or requirements of the [REDACTED] or of any other [REDACTED] on which our securities may be [REDACTED], as amended from time to time such number of Shares will represent up to 10% of the total number of Shares issued by our Company immediately upon completion of the [REDACTED], such mandate to remain in effect until the conclusion of our next AGM unless by ordinary resolution passed in 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 laws in Japan to be held, or until revoked or varied by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first. The Repurchase Mandate is subject to our Articles and all applicable laws and regulations in Japan and Hong Kong; and

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- (vii) 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 Directors pursuant to the Issuing Mandate of an amount representing the aggregate number of Shares repurchased by us pursuant to the Repurchase Mandate referred in paragraph (vi) above;
- (b) the 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 [REDACTED]; and
- (c) (i) the number of Shares authorised to be issued by our Company was increased from 20,000,000 Shares to [300,000,000] Shares; and (ii) each issued Share of nil par value was sub-divided into [46] Shares of nil par value with immediate effect so that our total number of issued Shares increased from 3,895,002 Shares to [179,170,092] Shares.

B. REPURCHASE OF OUR SHARES

This sub-section sets out information required by the [REDACTED] to be included in this [REDACTED] concerning the repurchase by us of our own securities.

1. Provisions under the [REDACTED]

The [REDACTED] permit companies with a primary [REDACTED] on the [REDACTED] to repurchase their own securities on the [REDACTED] subject to certain restrictions, the more important of which are summarised below:

(a) *Shareholders' approval*

Under the [REDACTED], all proposed repurchase of securities (which, under the [REDACTED] and the Companies Ordinance, must be fully paid-up in the case of shares) by a company with a primary [REDACTED] on the [REDACTED] 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 [REDACTED] and the applicable laws of the place of incorporation of the relevant [REDACTED] company. A [REDACTED] company may not repurchase its own securities on the [REDACTED] for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the [REDACTED]. 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. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of our share premium account.

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(c) ***Trading Restrictions***

The total number of shares which a [REDACTED] company may repurchase on the [REDACTED] 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 [REDACTED]. In addition, a [REDACTED] company is prohibited from repurchasing its shares on the [REDACTED] 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 [REDACTED]. The [REDACTED] also prohibit a [REDACTED] company from repurchasing its securities which are in the hands of the [REDACTED] falling below the relevant prescribed minimum percentage as required by the [REDACTED]. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the [REDACTED] such information with respect to the repurchase as the [REDACTED] may require.

(d) ***Suspension of Repurchase***

A [REDACTED] 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 [REDACTED] in accordance with the [REDACTED]) for the approval of a [REDACTED] company's results for any year, half-year, quarterly or any other interim period (whether or not required under the [REDACTED]) and (ii) the deadline for publication of an announcement of a [REDACTED] company's results for any year or half-year under the [REDACTED], or quarterly or any other interim period (whether or not required under the [REDACTED]) and ending on the date of the results announcement, the [REDACTED] company may not repurchase its shares on the [REDACTED] other than in exceptional circumstances. In addition, the [REDACTED] may prohibit a repurchase of securities on the [REDACTED] if a [REDACTED] company has breached the [REDACTED].

(e) ***Reporting Requirements***

Certain information relating to repurchases of securities on the [REDACTED] or otherwise must be reported to the [REDACTED] 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 [REDACTED] 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 [REDACTED] company is prohibited from knowingly repurchasing securities on the [REDACTED] 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.

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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.

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Upon [REDACTED], we will effect repurchases of our Shares outside the [REDACTED] in accordance (i) and (ii) above, subject to compliance with all applicable [REDACTED] and/or the [REDACTED]. Repurchases on the [REDACTED] will be effected under the Repurchase Mandate granted to our Directors by our Shareholders on [10 March] 2015 in compliance with Rule 10.06 of the [REDACTED] 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 of Directors (so long as such repurchases comply with the applicable requirements under the [REDACTED]), 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 [REDACTED], 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 [REDACTED] that they will not exercise the Repurchase Mandate to repurchase our Shares on the [REDACTED] unless there is clear judicial authority allowing us to make repurchases on the [REDACTED] 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 [REDACTED] and the applicable laws of Japan. On the basis of our current financial position as disclosed in this [REDACTED] 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 [REDACTED]. 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.

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Exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue after completion of the [REDACTED] (assuming the [REDACTED] is not exercised), could accordingly result in up to [REDACTED] Shares being repurchased by us during the period prior to the earliest of:

- (a) the conclusion of our next AGM;
- (b) the expiration of the period within which our next AGM is required by the applicable Japan law or our Articles to hold our next AGM; or
- (c) when the Repurchase Mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

None of the 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 [REDACTED] that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the [REDACTED], our Articles, the Japan Companies Act or any other applicable laws of Japan.

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 [REDACTED]. 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 [REDACTED]. Save as aforesaid, our Directors are not aware of any consequences which would arise under the [REDACTED] 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 [REDACTED]. Hence, in compliance with Rule 10.06(5) of the [REDACTED], the [REDACTED] of all repurchased securities (whether effected on [REDACTED] 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.

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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 [REDACTED] and are or may be material:

- (a) the share acquisition agreement dated 29 September 2014 entered into between Niraku Corporation (as purchaser) and Mr. Tatsuo TANIGUCHI (谷口龍雄) (as seller), pursuant to which Niraku Corporation acquired 150 shares in Nexia, in consideration for an aggregate ¥29,255,550;
- (b) the Deed of Non-competition; and
- (c) the [REDACTED].

2. Our material intellectual property rights

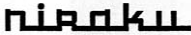
(a) **Trademark**

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
	Japan	41	4770833	14 May 2004	14 May 2024

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Trademark	Place of Registration	Class	Registration number	Registration date	Expiry date
	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 registration the following trademarks which we believe are material to our business:

Trademark	Place of registration	Class	Application number	Filing date
	Hong Kong	16, 28, 41, 42	303136743	16 September 2014
				
	Hong Kong	16, 28, 41, 42	303136734	16 September 2014
	Hong Kong	16, 28, 35, 41, 42	303136725	16 September 2014
	Hong Kong	16, 28, 41, 42	303198259	12 November 2014

(b) **Domain name**

As at the Latest Practicable Date, we were the registered owner of the domain name, www.niraku.co.jp, which we believe is material to our business.

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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 [REDACTED]*

The table below sets out the interests of our Directors and Chief Executive Officer immediately following the completion of the [REDACTED] (assuming the [REDACTED] 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 [REDACTED]) which will have to be notified to us and the [REDACTED] pursuant to Divisions 7 and 8 of Part XV of the [REDACTED] (including interests and short positions in which they are taken or deemed to have under such provisions of the [REDACTED]), or which will be required, pursuant to section 352 of the [REDACTED], to be entered in the register referred to therein, or which will be required to be notified to us and the [REDACTED] pursuant to the [REDACTED] contained in the [REDACTED] rules, once the Shares are [REDACTED]:

Name of Directors/ Chief Executive Officer	Capacity/nature of interest	Relevant company (including associated corporation)	Number and class of Shares immediately after the [REDACTED]	Approximate percentage of shareholding in the total issued share capital of the relevant company after the [REDACTED]
Our Chairman	Beneficial interest ⁽¹⁾	Our Company	[REDACTED]	[REDACTED]%

Notes:

(1) The interests held by our Chairman shown above include the [REDACTED] Shares held in his own name for his own benefit and the [REDACTED] 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.

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(b) ***Interests of the substantial shareholders in the Shares which are discloseable under Division 2 and 3 of Part XV of the [REDACTED]***

Immediately following the completion of the [REDACTED] (assuming the [REDACTED] 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 [REDACTED] under the provisions of Divisions 2 and 3 of Part XV of the [REDACTED], 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 [REDACTED]	Approximate percentage of shareholding in the total issued share capital of the relevant company after the [REDACTED]
Tatsuo TANIGUCHI (谷口龍雄) . . .	Beneficial interest; custodian ⁽¹⁾	Our Company	[REDACTED]	[REDACTED]%
Masataka TANIGUCHI (谷口晶貴) .	Beneficial interest; custodian ⁽²⁾	Our Company	[REDACTED]	[REDACTED]%
Yoshihiro TEI (鄭義弘)# (also known as JEONG Jungwung) . .	Beneficial interest; custodian ⁽³⁾	Our Company	[REDACTED]	[REDACTED]%
SMBC Trust Bank Ltd.* (株式会社SMBC信託銀行)	Trustee ^{(1), (2), (3)}	Our Company	[REDACTED]	[REDACTED]%
ESOA	Custodian ⁽⁴⁾	Our Company	[REDACTED]	[REDACTED]%
Seiai HATOYAMA (鳩山正愛)	Interest of a spouse ⁽⁵⁾	Our Company	[REDACTED]	[REDACTED]%
Hideko TANIGUCHI (谷口秀子) . . .	Interest of a spouse ⁽⁶⁾	Our Company	[REDACTED]	[REDACTED]%
Eiko TANIGUCHI (谷口栄子)	Interest of a spouse ⁽⁷⁾	Our Company	[REDACTED]	[REDACTED]%
Keie TEI (鄭慶恵)	Interest of a spouse ⁽⁹⁾	Our Company	[REDACTED]	[REDACTED]%
Hidenori TANIGUCHI (谷口秀憲) . .	Interest of a child ⁽⁹⁾	Our Company	[REDACTED]	[REDACTED]%
Yuryon TANIGUCHI (谷口有鈴) . . .	Interest of a child ⁽⁹⁾	Our Company	[REDACTED]	[REDACTED]%
Hirohide TANIGUCHI (谷口博秀) . .	Interest of a child ⁽⁹⁾	Our Company	[REDACTED]	[REDACTED]%
Yuri TANIGUCHI (谷口裕里)	Interest of a child ⁽⁹⁾	Our Company	[REDACTED]	[REDACTED]%
Masahide TEI (鄭將英)# (also known as JEONG Jangyeong) .	Interest of a child; beneficial interest ⁽¹⁰⁾	Our Company	[REDACTED]	[REDACTED]%
Akinori TEI (鄭敬憲)# (also known as JEONG Kyeongheon)	Interest of a child; beneficial interest ⁽¹⁰⁾	Our Company	[REDACTED]	[REDACTED]%

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Notes:

- (1) The interests held by Mr. Tatsuo TANIGUCHI (谷口龍雄) shown above include (i) [REDACTED] Shares held in his own name for his own benefit, (ii) [REDACTED] 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) [REDACTED] 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) [REDACTED] Shares held by the TT Family Trust for the benefit of his children, namely 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). 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 the Shares held by the TT Family Trust. The interests held by 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) [REDACTED] Shares held in his own name for his own benefit; (ii) [REDACTED] 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) [REDACTED] Shares held by the MT Family Trust for the benefit of his children, namely Mr. Tatsunari TANIGUCHI (谷口辰成)[#] (also known as Mr. CHONG Jinsong), Mr. Takanari TANIGUCHI (谷口結成)[#] (also known as Mr. JEONG Cheolseong) and Mr. Toshinari TANIGUCHI (谷口才成)[#] (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 the Shares held by the MT Family Trust. The interests held by 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)[#] (also known as JEONG Jungwung) shown above include (i) [6,716,000] Shares held in his own name for his own benefit; (ii) [REDACTED] 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)[#] (also known as JEONG Jungwung); and (iii) [REDACTED] Shares held by the YT Family Trust for the benefit of his children, namely Mr. Akinori TEI (鄭敬憲)[#] (also known as JEONG Kyeongheon) and Mr. Masahide TEI (鄭將英)[#] (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)[#] (also known as JEONG Jungwung) is entitled to exercise the voting rights attached the Shares held by the YT Family Trust. The interests held by the YT Family Trust are equally distributed among the two beneficiaries under the YT Family Trust.
- (4) The ESOA is the registered owner of [REDACTED] 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 [REDACTED].
- (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 [REDACTED].
- (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 [REDACTED].
- (8) Mrs. Keie TEI (鄭慶恵) 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 [REDACTED].

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- (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 [REDACTED].
- (10) Ms. Masahide TEI (鄭將英)[#] and Mr. Akinori TEI (鄭敬憲)[#] 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 [REDACTED]. 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 [REDACTED], our Directors are not aware of any persons who will, immediately following completion of the [REDACTED] (assuming the [REDACTED] 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 [REDACTED], 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 [REDACTED] (assuming the [REDACTED] 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 [REDACTED], none of our Directors know of any persons who will immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised) have a notifiable interest (for the purposes of the [REDACTED]) in the Shares or, having such a notifiable interest, have any short positions (within the meaning of the [REDACTED]) in the Shares, other than as disclosed at (b) above.

2. Particulars of Directors’ service agreements and letters of appointment

Our Executive Director has signed a service agreement with us for an initial term of three years, commencing from [10 March] 2015 (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 as follows:-

Director	Remuneration (per annum)
Our Chairman	¥30,480,000

Each of our Independent Non-executive Directors has signed a letter of appointment with us for an initial term of three years, commencing from [10 March] 2015 (subject to termination in certain circumstances as stipulated in the relevant letters of appointment).

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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 [REDACTED], within the two years immediately preceding the date of this [REDACTED], 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 the related party transactions, see Note 35 to the Accountant’s Report set out in Appendix I to this [REDACTED].

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 [REDACTED]) which will have to be notified to us and the [REDACTED] pursuant to Division 7 and 8 of Part XV of the [REDACTED] of which will be required, pursuant to section 352 of the [REDACTED], to be entered in the register referred to therein, or which will be required to be notified to us and the [REDACTED] pursuant to [REDACTED] once the Shares are [REDACTED];
- (b) None of our Directors or experts referred to in the section “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 [REDACTED] 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 the section “F. Other Information — 7. Qualifications of Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this [REDACTED] which is significant in relation to the business of our Group taken as a whole;

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- (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 [REDACTED] or upon exercise of the [REDACTED], 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 [REDACTED], 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 [REDACTED] 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 under the section “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 [REDACTED]) or shareholders who are interested in more than 5% of our share capital have any interests in the five 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 [REDACTED].

3. Promoter

Our Company has no promoter for the purpose of the [REDACTED]. Within the two years immediately preceding the date of this [REDACTED], 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 [REDACTED] and the related transactions described in this [REDACTED].

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4. Application for [REDACTED]

The Sole Sponsor has made an application on behalf of our Company to the [REDACTED] of the [REDACTED] for the [REDACTED] of, and permission to [REDACTED] in, the Shares: (i) in issue; (ii) to be issued pursuant to the [REDACTED]; and (iii) to be issued upon exercise of the [REDACTED]. All necessary arrangements have been made to enable the securities to be admitted into [REDACTED].

5. No material adverse change

Our Directors confirm that save as disclosed in this [REDACTED], 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.

6. Agency fees and commissions received

The [REDACTED] will receive an [REDACTED] commission as referred to in “[REDACTED] — [REDACTED] Arrangements and Expenses — Commissions and Expenses”.

7. Qualifications of experts

The qualifications of the experts (as defined under the [REDACTED] and [REDACTED] who have given their opinion and/or advice in this [REDACTED] are as follows:-

Name	Qualifications
Shenyin Wanguo Capital (H.K.) Limited . .	Licensed under the [REDACTED] to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) regulated activities as defined under the [REDACTED]
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 [REDACTED] 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.

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9. Binding effect

This [REDACTED] 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 [REDACTED] 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 have entered into a deed of indemnity in favour of our Company on [10 March] 2015, pursuant to which they have, jointly and severally, agreed to indemnify, and keep our Company (for itself and as a trustee for our subsidiaries) indemnified of, any tax liability which might be payable by our Group resulting from any income, profit, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or up to the date on which the [REDACTED] becomes unconditional.

11. Miscellaneous

Save as otherwise disclosed in this [REDACTED]:

- (i) within the two years immediately preceding the date of this [REDACTED], 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 [REDACTED], 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 [REDACTED], no commission has been paid or is payable (except commissions to [REDACTED]) 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 [REDACTED]) 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;

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

- (vii) no company within our Group is presently [REDACTED] on any [REDACTED] or [REDACTED] 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 [REDACTED].

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 [REDACTED]

The English language and Chinese language versions of this [REDACTED] are being published separately, in reliance upon the exemption provided under section 4 of [REDACTED].

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 [REDACTED].

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE [REDACTED]

The documents attached to a copy of this [REDACTED] and delivered to the [REDACTED] in Hong Kong for registration were: (i) copies of the **[REDACTED]**, **[REDACTED]** and **[REDACTED]**; (ii) copies of each of the material contracts referred to in paragraph (m) of this Appendix; and (iii) the consent letters referred to in paragraph (o) 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 [REDACTED]:

- (a) a certified English translation of our Articles of Incorporation;
- (b) an English translation of the Japan Companies Act;
- (c) the accountant's report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this [REDACTED];
- (d) the report from PricewaterhouseCoopers on our unaudited pro forma financial information, the text of which is set out in Appendix II to this [REDACTED];
- (e) 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;
- (f) the letter issued by Soga Law Office, our Japan Legal Adviser, summarising certain aspects of the Japanese corporation law referred to in Appendix V to this [REDACTED];
- (g) 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;
- (h) 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;
- (i) the commissioned report prepared by EBI on the pachinko industry in Japan referred to in “Industry Overview”;
- (j) the letter, summary of values and valuation report prepared by DTZ Debenham Tie Leung Limited, our independent Property Valuer, the text of which is set out in Appendix III to this [REDACTED];

APPENDIX VII

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

- (k) the independent assurance report on our anti-money laundering controls prepared by Pricewaterhousecoopers Limited, our AML Consultant, the text of which is set out in Appendix IV to this [REDACTED];
- (l) the letter 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, summarising certain aspects of material Japan tax consequences which may be applicable to our Shareholders referred to in “Key Japan Legal and Regulatory Matters — E. Taxation”;
- (m) the material contracts referred to in “Appendix VI — Statutory and General Information — C. Further information about our business — 1. Summary of material contracts”;
- (n) the service agreements 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 agreements and letters of appointment”;
- (o) the consent letters referred to in “Appendix VI — Statutory and General Information — F. Other information — 8. Consents”; and
- (p) this [REDACTED].