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NIRAKU GC HOLDINGS

株式会社ニラク・ジー・シー・ホールディングス

NIRAKU GC HOLDINGS, INC.*

(Incorporated in Japan with limited liability)

(Stock Code: 1245)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2022

ANNUAL RESULTS HIGHLIGHTS

- Gross pay-ins were ¥108,075 million (or HK\$6,910 million[#]), recording an increase of 14.5% as compared with the year ended 31 March 2021;
- Revenue was ¥22,209 million (or HK\$1,419 million[#]), recording an increase of 19.8% as compared with the year ended 31 March 2021;
- Loss before income tax was ¥171 million (or HK\$11 million[#]), recording a decrease in loss of ¥8,331 million as compared with the year ended 31 March 2021;
- Loss for the year attributable to owners of the Company was ¥1,181 million (or HK\$76 million[#]), recording a decrease in loss of ¥4,300 million as compared with the year ended 31 March 2021;
- The Group operates 49 halls in Japan as at the date of this announcement (31 March 2021: 47 halls);
- Basic loss per share of the Company was ¥0.99 (or HK\$0.062[#]) (2021: basic loss per share ¥4.58); and
- The Board has resolved to declare a final dividend of ¥0.40 for the year ended 31 March 2022 (2021: Nil).

Translated into Hong Kong dollar at the rate of ¥15.64 to HK\$1.00, the exchange rate prevailing on 31 March 2022 (i.e. the last business day in March 2022).

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

* For identification purpose only

The board (the “Board”) of directors (the “Directors”) of NIRAKU GC HOLDINGS, INC.* (the “Company” or “NIRAKU”) would like to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2022 together with the comparative figures for the year ended 31 March 2021 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2022

	Note	2022 ¥ million	2021 ¥ million
Revenue	4	22,209	18,541
Other income	5	645	639
Other gains, net	5	1,536	173
Impairment loss on property, plant and equipment		(168)	(2,949)
Impairment loss on right-of-use assets		(759)	(2,643)
Impairment loss on intangible assets		(1,077)	(204)
Hall operating expenses	6	(18,279)	(17,367)
Administrative and other operating expenses	6	(3,246)	(3,393)
Operating profit/(loss)		861	(7,203)
Finance income	7	79	95
Finance costs	7	(1,111)	(1,394)
Finance costs, net	7	(1,032)	(1,299)
Loss before income tax		(171)	(8,502)
Income tax (expense)/credit	8	(1,016)	2,898
Loss for the year		(1,187)	(5,604)
Loss attributable to:			
Owners of the Company		(1,181)	(5,481)
Non-controlling interest		(6)	(123)
		(1,187)	(5,604)

	Note	2022 ¥ million	2021 ¥ million
Loss per share for loss attributable to owners of the Company for the year			
— Basic and diluted (expressed in Japanese Yen per share)	9	<u>(0.99)</u>	<u>(4.58)</u>
Loss for the year		(1,187)	(5,604)
Other comprehensive loss			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Change in value of financial assets through other comprehensive income, net of tax		8	17
<i>Items that have been or may be subsequently reclassified to profit or loss</i>			
Currency translation differences		<u>(6)</u>	<u>(6)</u>
Total comprehensive loss for the year		<u>(1,185)</u>	<u>(5,593)</u>
Total comprehensive loss attributable to:			
Owners of the Company		(1,132)	(5,458)
Non-controlling interest		<u>(53)</u>	<u>(135)</u>
		<u>(1,185)</u>	<u>(5,593)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	Note	2022 ¥ million	2021 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment		17,754	18,581
Right-of-use assets		26,193	27,949
Investment properties		714	737
Intangible assets		361	1,400
Interest in an associate		–	–
Prepayments, deposits and other receivables		4,319	4,545
Financial assets at fair value through other comprehensive income		605	577
Deferred income tax assets		5,342	5,765
		<u>55,288</u>	<u>59,554</u>
Current assets			
Inventories		44	21
Trade receivables	11	74	64
Prepayments, deposits and other receivables		1,096	1,327
Financial assets at fair value through profit or loss		105	106
Current income tax recoverable		–	474
Bank deposits with maturity over 3 months		242	42
Cash and cash equivalents		11,451	15,903
		<u>13,012</u>	<u>17,937</u>
Total assets		<u><u>68,300</u></u>	<u><u>77,491</u></u>

	Note	2022 ¥ million	2021 ¥ million
EQUITY			
Equity attributable to owners of the Company			
Share capital		3,000	3,000
Reserves		<u>16,630</u>	<u>17,762</u>
		19,630	20,762
Non-controlling interest		<u>(609)</u>	<u>(556)</u>
Total equity		<u>19,021</u>	<u>20,206</u>
LIABILITIES			
Non-current liabilities			
Borrowings	13	6,939	738
Lease liabilities	14	28,090	30,534
Provisions and other payables		2,244	2,192
Derivative financial instruments		<u>9</u>	<u>16</u>
		37,282	33,480
Current liabilities			
Trade payables	12	108	108
Borrowings	13	4,702	15,929
Lease liabilities		2,599	2,906
Accruals, provisions and other payables		4,244	4,131
Derivative financial instruments		2	3
Current income tax liabilities		<u>342</u>	<u>728</u>
		11,997	23,805
Total liabilities		<u>49,279</u>	<u>57,285</u>
Total equity and liabilities		<u>68,300</u>	<u>77,491</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in pachinko and pachislot hall operations, hotel and restaurant operations in Japan; amusement arcade operations in Southeast Asian countries; and restaurant operations in China. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

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

These consolidated financial statements have been approved by the Board of Directors of the Company on 29 June 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

3 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) and the disclosure requirements of the Hong Kong Company Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative financial instruments) which are carried at fair value.

(i) Amendments to standards adopted by the Group

The Group has applied the following amendments to existing standards for the first time for their annual reporting period commencing 1 April 2021:

Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021

The adoption of the standards and amendments did not have any material impact on the Group’s accounting policies.

(ii) **New and amended standards and improvements to existing standards (collectively, the “Amendments”) not yet adopted by the Group**

The following amendments have been published but not mandatory for 31 March 2022 reporting period and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to IAS37	Onerous contracts — Cost of Fulfilling a Contract	1 January 2022
Amendment to Annual Improvement projects	Annual Improvement to IFRS Standards 2018–2020	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IFRS 17	Amendments to IFRS 17	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The related impacts of the adoption of these amendments to the Group are currently under assessment and the Group is not yet in a position to state whether any substantial changes to the Group’s significant policies and presentation of the financial information will result.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2022 ¥ million	2021 ¥ million
Revenue		
Gross pay-ins	108,075	94,414
Less: gross pay-outs	<u>(86,999)</u>	<u>(77,531)</u>
Revenue from pachinko and pachislot hall business	21,076	16,883
Revenue from amusement arcades	359	1,015
Vending machine income	356	335
Revenue from hotel operations	39	55
Revenue from restaurant operations	<u>379</u>	<u>253</u>
	<u>22,209</u>	<u>18,541</u>

During the year ended 31 March 2022, revenue recognised that was included in the contract liabilities balances of receipt in advance and unutilised balls and tokens at the beginning of the year amounted to ¥100 million (2021: ¥194 million) and ¥1,192 million (2021: ¥1,132 million), respectively.

As at 31 March 2022, the amount of transaction price allocated to the contract liabilities in relation to receipt in advance and unutilised balls and tokens that are unfulfilled were ¥171 million and ¥1,398 million, respectively, of which all are expected to be recognised as revenue during the next reporting period.

(b) Segment information

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

Management has identified four reportable segments based on the types of services, namely (i) pachinko and pachislot hall operations, (ii) amusement arcade operations, (iii) restaurant operation in China and (iv) others, representing hotel and restaurant operations in Japan.

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

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

The segment information provided to the executive directors for the years ended 31 March 2022 and 2021 are as follows:

	Year ended 31 March 2022				Total ¥ million
	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operation	Others	
	Japan ¥ million	Southeast Asia ¥ million	China ¥ million	Japan ¥ million	
Timing of revenue recognition					
Over time	21,432	359	-	39	21,830
At a point in time	-	-	107	272	379
Segment revenue from external customers	<u>21,432</u>	<u>359</u>	<u>107</u>	<u>311</u>	<u>22,209</u>
Segment results	3,784	(330)	(264)	(188)	3,002
Impairment loss on intangible assets (Note)					(1,008)
Other corporate expenses					<u>(2,165)</u>
Loss before income tax					(171)
Income tax expense					<u>(1,016)</u>
Loss for the year					<u><u>(1,187)</u></u>
Other segment items					
Depreciation and amortisation expenses	(3,760)	(326)	(87)	(23)	(4,196)
Impairment loss on right-of-use assets	(424)	(61)	(274)	-	(759)
Impairment loss on property, plant and equipment	(145)	(22)	(1)	-	(168)
Impairment loss on intangible assets	(13)	(47)	(9)	-	(69)
Impairment loss on irrecoverable prepayments	(5)	-	(56)	-	(61)
Finance income	71	8	-	-	79
Finance costs	<u>(1,039)</u>	<u>(60)</u>	<u>(4)</u>	<u>(8)</u>	<u>(1,111)</u>

Note: Impairment loss on goodwill arising from acquisition of the Group's amusement arcade business is considered to be part of the corporate expenses and not allocated to operating segment for segment reporting purpose.

	Year ended 31 March 2021				
	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operation	Others	Total
	Japan ¥ million	Southeast Asia ¥ million	China ¥ million	Japan ¥ million	¥ million
Timing of revenue recognition					
Over time	17,218	1,015	-	55	18,288
At a point in time	-	-	-	253	253
	<u>17,218</u>	<u>1,015</u>	<u>-</u>	<u>308</u>	<u>18,541</u>
Segment revenue from external customers					
	17,218	1,015	-	308	18,541
	<u>17,218</u>	<u>1,015</u>	<u>-</u>	<u>308</u>	<u>18,541</u>
Segment results	(6,493)	(308)	(260)	(506)	(7,567)
Impairment loss on intangible assets (Note)					(187)
Other corporate expenses					(748)
					<u>(8,502)</u>
Loss before income tax					(8,502)
Income tax credit					2,898
					<u>(5,604)</u>
Loss for the year					<u>(5,604)</u>
Other segment items					
Depreciation and amortisation expenses	(3,811)	(460)	(92)	(31)	(4,394)
Impairment loss on right-of-use assets	(2,488)	(58)	(97)	-	(2,643)
Impairment loss on property, plant and equipment	(2,929)	(19)	(1)	-	(2,949)
Impairment loss on intangible assets	-	-	(17)	-	(17)
Impairment loss on investment properties	-	-	-	(55)	(55)
Finance income	90	5	-	-	95
Finance costs	(1,266)	(105)	-	(23)	(1,394)
	<u>(1,266)</u>	<u>(105)</u>	<u>-</u>	<u>(23)</u>	<u>(1,394)</u>

Note: Impairment loss on goodwill arising from acquisition of the Group's amusement arcade business is considered to be part of the corporate expenses and not allocated to operating segment for segment reporting purpose.

The segment assets as at 31 March 2022 and 2021 are as follows:

	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operation	Others	Total
	Japan ¥ million	Southeast Asia ¥ million	China ¥ million	Japan ¥ million	¥ million
As at 31 March 2022					
Segment assets	54,675	1,212	174	833	56,894
Unallocated assets					6,064
Deferred income tax assets					5,342
Total assets					68,300
Addition to non-current assets other than financial instruments and deferred tax assets	<u>4,050</u>	<u>184</u>	<u>-</u>	<u>97</u>	<u>4,331</u>
	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operation	Others	Total
	Japan ¥ million	Southeast Asia ¥ million	China ¥ million	Japan ¥ million	¥ million
As at 31 March 2021					
Segment assets	62,150	1,750	576	933	65,409
Unallocated assets					6,317
Deferred income tax assets					5,765
Total assets					77,491
Addition to non-current assets other than financial instruments and deferred tax assets	<u>3,909</u>	<u>231</u>	<u>4</u>	<u>90</u>	<u>4,234</u>

The total of non-current assets other than financial instruments and deferred tax assets, analysed by location of the assets, is as follows:

	2022 ¥ million	2021 ¥ million
Japan, country of domicile	44,783	47,722
Southeast Asia	576	948
China	–	412
	<u>45,359</u>	<u>49,082</u>

No single external customer contributed more than 10% revenue to the Group's revenue for the years ended 31 March 2022 and 2021.

5 OTHER INCOME AND OTHER GAINS, NET

	2022 ¥ million	2021 ¥ million
Other income		
Rental income	214	176
Income from expired IC and membership cards	22	19
Dividend income	21	27
Compensation and subsidies	135	243
Income from scrap sales of used pachinko and pachislot machines	170	86
Others	83	88
	<u>645</u>	<u>639</u>
Other gains, net		
Gain on release of lease liabilities (<i>Note</i>)	1,423	178
(Loss)/gain on fair value for financial assets at fair value through profit or loss	(1)	6
Gain on fair value for derivative financial instruments	8	7
Gain/(loss) on disposal of property, plant and equipment	23	(55)
Loss on write-off of intangible assets	(33)	–
Others	116	37
	<u>1,536</u>	<u>173</u>

Note: Gain on release of lease liabilities during the year ended 31 March 2022 mainly represents the gain from termination of lease in relation to closure of one pachinko and pachislot hall in Japan.

6 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2022 ¥ million	2021 ¥ million
Auditor's remuneration		
– Audit services	109	100
– Non-audit services	11	13
Employee benefits expenses		
– Hall operations	4,480	4,805
– Administrative and others	1,291	1,164
Operating lease rental expense in respect of land and buildings	133	174
Depreciation of property, plant and equipment	1,593	1,974
Depreciation of right-of-use assets	2,521	2,335
Depreciation of investment properties	23	21
Amortisation of intangible assets	59	64
Other taxes and duties	331	372
Utilities expenses	838	761
Consumables and cleaning	644	853
Outsourcing service expenses	568	695
Prizes procurement expenses to wholesalers	721	680
Pachinko and pachislot machines expenses (<i>Note</i>)	6,649	4,650
Advertising expenses	802	723
Impairment loss on loan to associate	–	271
Impairment loss on investment properties	–	55
Impairment loss on irrecoverable prepayments	61	–
Legal and professional fees	117	67
Others	574	983
	<u>21,525</u>	<u>20,760</u>

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

7 FINANCE COSTS, NET

	2022 ¥ million	2021 ¥ million
Finance income		
Bank interest income	2	2
Interest income on lease receivables	35	37
Other interest income	42	56
	<u>79</u>	<u>95</u>
Finance costs		
Bank borrowings	(134)	(239)
Lease liabilities	(784)	(935)
Amortisation of borrowing costs	(193)	(220)
	<u>(1,111)</u>	<u>(1,394)</u>
Finance costs, net	<u>(1,032)</u>	<u>(1,299)</u>

8 INCOME TAX EXPENSE/(CREDIT)

	2022 ¥ million	2021 ¥ million
Current income tax		
— Japan	599	2
— Other Asian countries	(2)	2
	<u>597</u>	<u>4</u>
Deferred income tax	419	(2,902)
	<u>1,016</u>	<u>(2,898)</u>

No provision for Hong Kong profits tax or China income tax have been made for the years ended 31 March 2022 and 2021 as the Group did not generate any assessable profits arising in Hong Kong and China during the year ended 31 March 2022 (2021: same).

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the profits tax rate of Japan as follows:

	2022 ¥ million	2021 ¥ million
Loss before income tax	<u>(171)</u>	<u>(8,502)</u>
Tax calculated at applicable Japan corporate income tax	(51)	(2,544)
Effect of difference in tax rates of subsidiaries	131	(568)
Income not subject to tax	(1)	(14)
Expenses not deductible for tax purpose	461	65
Unrecognised tax losses	131	34
Unrecognised deductible temporary differences	<u>345</u>	<u>129</u>
	<u>1,016</u>	<u>(2,898)</u>

9 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 March 2022 and 2021.

	2022	2021
Loss attributable to owners of the Company (¥ million)	<u>(1,181)</u>	<u>(5,481)</u>
Weighted average number of ordinary shares for the purpose of calculating basic loss per share (<i>thousands</i>)	<u>1,195,850</u>	<u>1,195,850</u>
Basic and diluted loss per share (¥)	<u>(0.99)</u>	<u>(4.58)</u>

No diluted loss per share is presented as there was no potential dilutive shares during the years ended 31 March 2022 and 2021. Diluted loss per share is equal to the basic loss per share.

10 DIVIDENDS

No dividend was paid during the year ended 31 March 2022 and 2021.

The board of directors of the Company declared a final dividend of ¥0.40 per common share totaling ¥478 million in respect of the year ended 31 March 2022 (2021: Nil). These consolidated financial statements do not reflect this dividend payable.

11 TRADE RECEIVABLES

	2022 ¥ million	2021 ¥ million
Trade receivables	<u>74</u>	<u>64</u>

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

As at 31 March 2022 and 2021, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	2022 ¥ million	2021 ¥ million
Less than 30 days	46	64
Over 30 days	<u>28</u>	<u>–</u>
	<u>74</u>	<u>64</u>

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

The carrying amounts of trade receivables approximate their fair values as at 31 March 2022 and 2021 and are denominated in ¥.

12 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 31 March 2022 and 2021 were as follows:

	2022 ¥ million	2021 ¥ million
Less than 30 days	15	108
Over 30 days	<u>93</u>	<u>–</u>
	<u>108</u>	<u>108</u>

The carrying amounts of trade payables approximate their fair values as at 31 March 2022 and 2021.

13 BORROWINGS

	2022 ¥ million	2021 ¥ million
Non-current portion		
Bank loans (<i>Note</i>)	3,158	738
Syndicated loans	3,781	–
	<u>6,939</u>	<u>738</u>
Current portion		
Bank loans (<i>Note</i>)	2,557	3,740
Syndicated loans	2,145	12,189
	<u>4,702</u>	<u>15,929</u>
Total borrowings	<u><u>11,641</u></u>	<u><u>16,667</u></u>

Note: During the year ended 31 March 2022, the Group entered into borrowing arrangements with several financial institutions with aggregated principal amount of ¥4,475 million at an interest rates ranging from 1.0% to of 2.57% per annum and with repayment terms of 1 to 5 years.

As at 31 March 2022 and 2021, the Group's borrowings were repayable as follows:

	2022 ¥ million	2021 ¥ million
Within 1 year	4,702	15,929
Between 1 and 2 years	2,294	326
Between 2 and 5 years	4,065	406
Over 5 years	580	6
	<u>11,641</u>	<u>16,667</u>

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

	2022	2021
Bank loans	1.62%	1.68%
Syndicated loans	0.93%	0.67%

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

	2022 ¥ million	2021 ¥ million
Property, plant and equipment	9,542	9,790
Investment properties	592	611
Deposits and other receivables	166	170
	<u>10,300</u>	<u>10,571</u>

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

	2022 ¥ million	2021 ¥ million
Floating rate		
— Expiring over 1 year	<u>1,225</u>	<u>1,383</u>

The carrying amounts of borrowings of the Group approximate their fair values as at 31 March 2022 and 2021.

14 LEASES

During the years ended 31 March 2022 and 2021, the Group received rent concessions in the form of waiver or reduction on fixed monthly rental and has accounted such rent concessions as lease modifications.

(a) Amounts recognised in the consolidated statement of financial position

	2022 ¥ million	2021 ¥ million
Right-of-use assets		
Buildings	21,959	27,286
Leasehold improvement	3,963	355
Equipment and tools	243	263
Vehicles	28	45
	<u>26,193</u>	<u>27,949</u>
Lease liabilities		
Current	2,599	2,906
Non-current	28,090	30,534
	<u>30,689</u>	<u>33,440</u>

Additions to and disposals of the right-of-use assets during the year ended 31 March 2022 were ¥3,402 million and ¥1,572 million (2021: ¥2,293 million and ¥1,502 million), respectively.

(b) Amounts recognised in the consolidated statement of financial position

	2022 ¥ million	2021 ¥ million
Depreciation of right-of-use assets		
Buildings	2,019	1,946
Leasehold improvement	440	298
Equipment and tools	43	70
Vehicles	19	21
	<u>2,521</u>	<u>2,335</u>
Interest expense (included in finance cost)	784	935
Expense relating to short-term leases (included in hall operating expenses)	127	160
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	<u>6</u>	<u>14</u>

The total cash outflow for leases during the year ended 31 March 2022 was ¥4,039 million (2021: ¥4,032 million).

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, pachinko and pachislot halls, amusement arcades centres, equipment and motor vehicles. Rental contracts are typically made for fixed periods of 5 to 20 years but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(d) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable under mutual agreement by the Group and the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The new coronavirus infection (COVID-19), which the World Health Organization (WHO) declared a global pandemic in March 2020, frequently mutated and spread like wildfire in 2021. Due to infection control restrictive measures taken around the world and a shortage of people arising from group infection, the supply network was clogged and brought significant confusion to the global economy. It is believed that this global supply chain turmoil will continue until 2024. In addition, the effects of fiscal and financial stimulus measures are expected to be limited due to rising concerns about inflation that have suddenly emerged in recent months, and the future economic outlook remains uncertain. In Japan, the third state of emergency was announced in April 2021, while repeatedly expanding and contracting the targeted areas depending on the local circumstances of infection, and it was not lifted until September 2021. Travel restrictions and voluntary suspension of business were required in the targeted areas, which had a great impact on consumers' lives. In addition, the wave of infection rushed intermittently from the 4th wave to the 6th wave throughout 2021. Apart from the requirements from the national and local governments, as consumers themselves restrained their own activities, the Japanese economy was affected by COVID-19 pandemic throughout the year.

In such an environment, in the pachinko hall business, which is the core business of the Group, we have continued to thoroughly comply with infection prevention guidelines of the industry and have specifically focused on creating an environment where customers can visit our outlets with peace of mind and play with a sense of security. In addition, the replacement of the new-format machines with low gambling elements, which was obligatory by January 2022, has been early promoted in a structured way so as not to cause sudden customer churn. As a result, pachinko revenue was increased by 25% compared to the previous year, which was approximately 80% of pre-pandemic level. We believe that we were able to achieve the minimum results under severe environments.

We believe that the pachinko industry will continually run business on the premise of achieving 80% of the level before COVID-19 pandemic. We have already reviewed hall operations on the premise of this, and have accumulated a variety of know-how, such as promoting labor-saving in hall operations while maintaining high quality customer service. At the same time, we have organized a cross-departmental merger and acquisition team and have been proactively exploring the opportunities for acquiring outlets and entities that cannot withstand the business environment after COVID-19 pandemic. In this fiscal year, we were able to acquire two medium-sized outlets from the acquisition candidates laid out on the table that met the conditions for utilizing our know-how and opening up as new outlets under our brand.

New outlets opening is important for expanding market share and shall constitute the core of Niraku's medium-term strategy. Thus, in the domestic pachinko hall business, we will proceed with the digitization to further improve cost efficiency, also we will build a solid profit structure in the future by investing in new outlets based on the financial foundation we have established.

The impact of the COVID-19 pandemic was also significant in our businesses in China and Southeast Asia, resulting in a substantial drop in revenue due to intermittent temporary closures of restaurants and gaming arcades.

Dream Games, a subsidiary that operates gaming arcades business in Vietnam and Cambodia, resulted in a 67% decrease in operating revenue compared to the previous year due to a series of temporary closures upon the request by the governments of the countries and the closure of two unprofitable outlets. In Cambodia and Vietnam, operations have been gradually resumed since November 2021, and the business environment has been improved. Despite the GDP growth rates of both countries were dropped dramatically amid the outbreak of COVID-19 pandemic, the International Monetary Fund forecasts the growth rate will recover to a high level again after the COVID-19 pandemic settles down. We also expect that as both countries are still in the progress of economic development, the market demand for consumption and leisure will continue to expand. Therefore, we plan to open 2 outlets in Vietnam in the next fiscal year.

The amusement arcade business in both Vietnam and Cambodia is centered on opening outlets in leading shopping malls. The new development plans of leading shopping mall development companies in both countries have not been changed on the assumption that future economic growth is foreseeable. While keeping an eye on this situation, we will continue to expand our business focusing on opening outlets in shopping malls.

The business of operating Japanese restaurant food court (Yokocho) in Shenzhen City, Guangdong Province, China, opened in July 2019, temporarily suspended operations in February 2020 due to the impact of the outbreak of COVID-19 pandemic within China. After that, China's domestic economy was improved as a result of the success of the Chinese government's measures against COVID-19 pandemic and initiative at an early stage for the resumption of economic activities, and we resumed the operations partially in August 2021. Nevertheless, due to the impact of the coronavirus cases found in Shenzhen city in January 2022, the business environment has not yet improved, and it is expected that it will take some time before it returns to normal conditions.

The Group's medium-term strategy is to focus on securing revenues and expanding market share in the pachinko hall business, which is our core business, and to invest in opening new outlets and merger and acquisition, aiming to create a structure that is able to secure stable earnings. At the same time, we will renovate existing outlets and make investments to promote digitization with the aim of further improving business efficiency. From a long-term perspective, the size of the pachinko market is on a declining trend, and we plan to branch out into new businesses in Japan.

Apart from Japan, while keeping an eye on COVID-19 pandemic in each country, we will focus on rebuilding and strengthening individual businesses in the short term and will put effort into stabilizing the business foundation as a priority issue. Over the medium term, we will also seek to expand existing businesses and create new business opportunities in order to respond to changes in the business environment in each country.

FINANCIAL REVIEW

Revenue from Pachinko and Pachislot Business

Revenue from pachinko and pachislot is derived from gross pay-ins netted with gross pay-outs.

Revenue from pachinko and pachislot business recorded a surge of ¥4,193 million, or 24.8%, from ¥16,883 million in 2021 to ¥21,076 million in 2022. The hike in revenue was attributable to the resumption of pachinko hall operations and gradual recovery of hall traffic after the removal of state of emergency order imposed by the government of Japan in early 2021, and replacement of gaming machines which trigger higher customer turnover.

Gross pay-ins

For the year ended 31 March 2022, the Group's gross pay-ins from pachinko and pachislot business amounted to ¥108,075 million, comprising revenue from suburban halls of ¥105,840 million (2021: ¥92,014 million) and urban halls of ¥2,235 million (2021: ¥2,400 million), representing an increase of ¥13,826 million, or 15.0%, and a reduction of ¥165 million, or 6.9%, respectively, as compared to last year. The overall increase was resulted from the factors mentioned above.

Gross pay-outs

Gross pay-outs, being the aggregate cost of G-prizes and general prizes exchanged by customers, increased from ¥77,531 million in 2021 to ¥86,999 million in 2022, an increase of ¥9,468 million, or 12.2%, which corresponded to the rise in gross pay-ins.

Revenue margin

The revenue margin in current year increased by 1.6% from 17.9% in 2021 to 19.5% in 2022. The increase in revenue margin was due to slight adjustment of pay-out ratio to stimulate customers' visit.

Revenue from Amusement Arcade Business

Revenue from amusement arcade business dropped from ¥1,015 million in 2021 to ¥359 million in current year. The amount comprised revenue derived from Vietnam and Cambodia amounting to ¥256 million and ¥103 million, respectively (2021: ¥872 million and ¥143 million, respectively). The plunge in revenue was due to the lockdown and social distancing measures imposed by local governments, causing a relatively prolonged closure of game centres in both Vietnam and Cambodia.

Other revenue

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

Vending machines income amounted to ¥356 million in 2022. The increase of ¥21 million as compared to ¥335 million in 2021 was attributable to the uplift of the state of emergency previously declared by the government in Japan, allowing all pachinko halls to resume their businesses.

Income from hotel operation amounted to ¥39 million in 2022, recording a significant drop of ¥16 million, or 29.1%, as compared to 2021 of ¥55 million. The hit on hotel income was due to the earthquake that happened in February 2021 causing a large scale of damages on the building itself which led to a six months' closure for hotel retrofit.

Revenue from restaurant operations amounted to ¥379 million for the year ended 31 March 2022. The rise of ¥126 million, or 49.8% as compared to ¥253 million in 2021 was resulted from (i) the resumption of YOKOCHO business in August 2021 bringing in an additional revenue of ¥107 million; (ii) additional revenue of ¥50 million from the Group's new business, bubble tea café; netted with (iii) fall in income from LIZARRAN business due to shorten of business days and business hours under the state of emergency declaration.

Hall operating expenses

Hall operating expenses increased by ¥912 million, or 5.3%, from ¥17,367 million in 2021 to ¥18,279 million in current year. Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and depreciation expenses, amounting to ¥6,649 million, ¥4,480 million and ¥3,505 million, respectively, for the year ended 31 March 2022 (31 March 2021: ¥4,650 million, ¥4,805 million and ¥4,124 million, respectively).

The rise in hall operating expenses was mainly resulted from more frequent replacement of new pachinko and pachislot machines to attract customers' visit and to comply with gaming regulations.

Administrative and other operating expenses

Administrative and other operating expenses dropped by ¥147 million, or 4.3% from ¥3,393 million for the year ended 31 March 2021 to ¥3,246 million in 2022. The drop in expenses was attributable to the effective cost control measures.

Impairment loss

Impairment loss on property, plant and equipment, right-of-use assets and intangible assets amounted to ¥2,004 million in current year. The International Accounting Standard 36 "Impairment of Assets" ("IAS 36") requires that assets be carried at no more than their recoverable amount. If an asset's carrying value exceeds the amount that could be received through use or selling the asset, then the asset is impaired and IAS 36 requires a company to make provision for the impairment loss. Non-current assets other than goodwill and intangible assets with indefinite useful life are tested for impairment when there are events that indicate that the related asset values may not be recoverable, and the Group carries out reviews of the recoverable amounts of each cash-generating units ("CGUs").

For the year ended 31 March 2022, management considered CGU with loss for one year and had performed below management's budget as having impairment indicator, and performed impairment assessments over pachinko and pachislot hall operations, amusement arcade operations and restaurant operations by assessing the recoverable amounts of the CGU, determined as the higher of their value-in-use and fair value less cost of disposal. The Group also performed annual impairment assessment of goodwill of the CGUs or the group of CGUs to which the goodwill is attached to. As a result, the Group recognised an impairment loss of ¥168 million, ¥759 million, and ¥1,077 million over plant, property and equipment, right-of-use assets and intangible assets, respectively (For the year ended 31 March 2021: ¥2,949 million, ¥2,643 million and ¥204 million over plant, property, equipment and right-of-use assets and intangible assets, respectively).

Finance costs

Finance costs, net amounted to ¥1,032 million for the year ended 31 March 2022 as compared to ¥1,299 million in 2021. The drop was attributable to the decrease in interest expense on lease liabilities and borrowings.

Loss attributable to owners of the Company, basic loss per share and dividend

Loss attributable to shareholders of the Company of ¥1,181 million was recorded for the year ended 31 March 2022, as compared to loss attributable to shareholders of the Company of ¥5,481 million for the year ended 31 March 2021. The improvement in financial performance was resulted from full operations of all pachinko halls and regaining of customer visit as mentioned above.

Basic loss per share for the year ended 31 March 2022 was ¥0.99 (basic loss per share for the year ended 31 March 2021: ¥4.58). The Board has declared a final dividend of ¥0.40 per common share for the year ended 31 March 2022 (31 March 2021: Nil).

CAPITAL STRUCTURE

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

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

The table below sets forth the information regarding the cash and bank balances, borrowings, lease liabilities, working capital, total equity and gearing ratio of the Group as at 31 March 2022 and 2021, and operating cash flows before movements in working capital of the Group for the years ended 31 March 2022 and 2021, respectively:

	As at 31 March	
	2022	2021
	¥ million	¥ million
Cash and cash equivalents	11,451	15,903
Bank deposits with maturity over 3 months	242	42
	11,693	15,945
Bank loans	5,715	4,478
Syndicated loans	5,926	12,189
Lease liabilities	30,689	33,440
	42,330	50,107
Working capital (<i>Note 1</i>)	1,015	(5,868)
Total equity	19,021	20,206
Gearing ratio (<i>Note 2</i>)	1.6	1.7

Note 1: Working capital being current assets less current liabilities.

Note 2: Gearing ratio is calculated as total borrowings less cash and cash equivalents divided by equity.

**For the year ended
31 March**

2022 2021
¥ million ¥ million

Operating cash flows before movements in
working capital

5,681 3,150

As at 31 March 2022, net current assets of the Group totalled ¥1,015 million (31 March 2021: net current liabilities ¥5,868 million), and current ratio was 1.08 as at 31 March 2022 (31 March 2021: 0.75). As at 31 March 2022, there were cash and cash equivalents of ¥11,451 million (31 March 2021: ¥15,903 million), in which ¥10,343 million was denominated in Japanese Yen, ¥775 million was denominated in United States dollar, ¥267 million was denominated in Hong Kong dollar and ¥66 million was denominated in other currencies. As at 31 March 2022, the Group had total borrowings and lease liabilities of ¥42,330 million (31 March 2021: ¥50,107 million). Current portion of bank borrowings and current portion of lease liabilities amounted to ¥7,301 million as at 31 March 2022 (31 March 2021: ¥18,835 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 31 March 2022, the total bank borrowings amounted to ¥11,641 million (31 March 2021: ¥16,667 million), with average effective interest rates on bank borrowings ranged from 0.93% to 1.62% (31 March 2021: 0.67% to 1.68%) per annum. Approximately 7.7% of bank borrowings as at 31 March 2022 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 31 March 2022, the Group had three floating to fixed interest rate swap contracts with banks in Japan (i.e. the Group pays fixed interest rates and receives interests at floating rate). These interest rate swap contracts were entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the year ended 31 March 2022, gain on fair value for interest rate swap contracts amounted to ¥8 million (2021: ¥7 million).

The Group did not carry out significant foreign currency investment and its debts were all denominated in Japanese Yen as at 31 March 2022. As the functional currency of certain subsidiaries are different from the Company, the Group will be exposed to foreign exchange risk arising from such exposure, namely in Singapore Dollar, Vietnamese Dong, Cambodian Riel and Renminbi against Japanese Yen. The management is assessing the significance of the foreign currency exposures faced by the Group and will consider adopting appropriate measures to mitigate the risk, including but not limited to entering into currency hedges.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and lease liabilities less cash and cash equivalents, divided by total equity, was 1.6 as at 31 March 2022 (31 March 2021: 1.7).

CAPITAL EXPENDITURE

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

	2022 ¥ million	2021 <i>¥ million</i>
Property, plant and equipment	927	1,718
Right-of-use assets	3,402	2,293
Investment properties	–	183
Intangible assets	2	40
	4,331	4,234

CHARGES ON ASSETS

As at 31 March 2022 and 2021, the carrying values of charged assets were as below:

	2022 ¥ million	2021 <i>¥ million</i>
Property, plant and equipment	9,542	9,790
Investment properties	592	611
Deposits and other receivables	166	170
	10,300	10,571

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2022 and 2021.

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

Save for those disclosed in this results announcement, the Group had no plan authorised by the Board for other material investments or additions of capital assets as at the date of this results announcement.

There is no important event affecting the Company that have occurred since the end of the financial year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2022, the Group had 1,630 employees. The remuneration policy of the Group (including those for directors and employees) is determined by the Remuneration Committee under the Board as per the performance, qualifications and competence of the employees.

FINAL DIVIDEND

The Board has declared a final dividend of ¥0.40 per common share for the year ended 31 March 2022 (31 March 2021: Nil) on 29 June 2022, the final dividend will be payable on 18 August 2022 to the shareholders of the Company (the “Shareholders”) whose names appear on the register of members of the Company at close of business on 20 July 2022.

The exchange rate for the conversion of Japanese Yen to Hong Kong dollar for the dividend distributed to the Shareholders in the currency other than Japanese Yen is based on the average currency rates prevailing five trading days immediately prior to 29 June 2022 (being 22 to 24 June 2022 and 27 to 28 June 2022).

CORPORATE GOVERNANCE

During the year ended 31 March 2022, the Company has adopted and complied with all the applicable principles and code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), with the exception for code provision C.2.1 (previous code provision A.2.1), which requires the roles of chairman and chief executive to be separated and should be performed by different individuals.

Code Provision C.2.1

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct during the year ended 31 March 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the year ended 31 March 2022. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31 March 2022.

AUDIT COMMITTEE

The audit committee of the Company had reviewed, together with the management and external auditor, the accounting principles and policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended 31 March 2022.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 March 2022 as set out in this preliminary results announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary results announcement.

ANNUAL GENERAL MEETING AND RECORD DATE

The annual general meeting of the Company (the "2022 AGM") will be held on 29 July 2022 at 1-24 Hohaccho 2-chome, Koriyama-shi, Fukushima, Japan. Notice of the 2022 AGM will be published and issued to Shareholders in due course. The right to attend and vote at the 2022 AGM will be granted to the Shareholders whose names appear on the Company's share register at the close of business on 25 July 2022.

In order for those Shareholders whose names have not been registered on the Company's share register to be eligible to attend and vote at the 2022 AGM, all properly completed, duly stamped and executed transfer documents accompanied by the relevant share certificates should be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 p.m. (Hong Kong time) on 25 July 2022.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (www.hkexnews.hk) and the Company (www.ngch.co.jp), and the annual report of the Company for the year ended 31 March 2022 containing all the information required by the Listing Rules will be dispatched to the Shareholders and will be published on the respective websites of the Stock Exchange and the Company in due course.

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

Fukushima, Japan, 29 June 2022

As at the date of this announcement, the executive Directors are Hisanori TANIGUCHI, Akinori OHISHI and Masataka WATANABE; the non-executive Director is Hiroshi BANNAI; and the independent non-executive Directors are Michio MINAKATA, Yoshihiro KOIZUMI, Kuraji KUTSUWATA and Akihito TANAKA.

* *for identification purpose only*