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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 2023

ANNUAL RESULTS HIGHLIGHTS

- Gross pay-ins were ¥119,837 million (or HK\$7,045 million[#]), recording an increase of 10.9% as compared with the year ended 31 March 2022;
- Revenue was ¥24,784 million (or HK\$1,457 million[#]), recording an increase of 11.6% as compared with the year ended 31 March 2022;
- Profit before income tax was ¥1,363 million (or HK\$80 million[#]) as compared to the loss before income tax of ¥171 million for the year ended 31 March 2022;
- Profit for the year attributable to owners of the Company was ¥1,134 million (or HK\$67 million[#]) as compared to loss attributable to owners of the Company of ¥1,181 million for the year ended 31 March 2022;
- The Group operates 49 halls in Japan as at date of this announcement (31 March 2022: 49 halls);
- Basic earnings per share of the Company was ¥0.95 (or HK\$0.06[#]) (2022: basic loss per share: ¥0.99); and
- The Board has resolved to declare a final dividend of ¥0.11 per ordinary share for the year ended 31 March 2023 (2022: ¥0.40 per ordinary share).

Translated into Hong Kong dollar at the rate of ¥17.01 to HK\$1.00, the exchange rate prevailing on 31 March 2023 (i.e. the last business day in March 2023).

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 2023 together with the comparative figures for the year ended 31 March 2022 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2023

	Note	2023 ¥ million	2022 ¥ million
Revenue	4	24,784	22,209
Other income	5	488	645
Other gains, net	5	153	1,536
Impairment loss on property, plant and equipment		(214)	(168)
Impairment loss on right-of-use assets		(371)	(759)
Impairment loss on intangible assets		–	(1,077)
Hall operating expenses	6	(18,870)	(18,279)
Administrative and other operating expenses	6	(3,712)	(3,246)
Operating profit		2,258	861
Finance income	7	84	79
Finance costs	7	(979)	(1,111)
Finance costs, net	7	(895)	(1,032)
Share of results of an associate		–	–
Profit/(loss) before income tax		1,363	(171)
Income tax expense	8	(310)	(1,016)
Profit/(loss) for the year		1,053	(1,187)
Profit/(loss) attributable to:			
Owners of the Company		1,134	(1,181)
Non-controlling interest		(81)	(6)
		1,053	(1,187)

	Note	2023 ¥ million	2022 ¥ million
Earnings/(loss) per share for profit/(loss) attributable to owners of the Company for the year			
— Basic and diluted (expressed in Japanese Yen per share)	9	<u>0.95</u>	<u>(0.99)</u>
Profit/(loss) for the year		1,053	(1,187)
Other comprehensive (loss)/profit			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Change in value of financial assets through other comprehensive income		(54)	8
<i>Items that have been or may be subsequently reclassified to profit or loss</i>			
Currency translation difference		<u>(45)</u>	<u>(6)</u>
Total comprehensive profit/(loss) for the year		<u>954</u>	<u>(1,185)</u>
Total comprehensive profit/(loss) attributable to:			
Owners of the Company		1,079	(1,132)
Non-controlling interest		<u>(125)</u>	<u>(53)</u>
		<u>954</u>	<u>(1,185)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2023

	Note	2023 ¥ million	2022 ¥ million
ASSETS			
Non-current assets			
Property, plant and equipment		16,898	17,754
Right-of-use assets		25,145	26,193
Investment properties		691	714
Intangible assets		322	361
Interest in an associate		–	–
Prepayments, deposits and other receivables		4,426	4,319
Financial assets at fair value through other comprehensive income		511	605
Deferred income tax assets		5,415	5,342
		<u>53,408</u>	<u>55,288</u>
Current assets			
Inventories		67	44
Trade receivables	11	107	74
Prepayments, deposits and other receivables		982	1,096
Financial assets at fair value through profit or loss		98	105
Current income tax recoverable		179	–
Bank deposits with maturity over 3 months		528	242
Cash and cash equivalents		10,435	11,451
		<u>12,396</u>	<u>13,012</u>
Total assets		<u><u>65,804</u></u>	<u><u>68,300</u></u>

	Note	2023 ¥ million	2022 ¥ million
EQUITY			
Equity attributable to owners of the Company			
Share capital		3,000	3,000
Reserves		17,028	16,630
		<u>20,028</u>	<u>19,630</u>
Non-controlling interest		(734)	(609)
		<u>19,294</u>	<u>19,021</u>
LIABILITIES			
Non-current liabilities			
Borrowings	13	5,765	6,939
Lease liabilities	14	26,968	28,090
Provisions and other payables		2,158	2,244
Derivative financial instruments		3	9
		<u>34,894</u>	<u>37,282</u>
Current liabilities			
Trade payables	12	125	108
Borrowings	13	4,441	4,702
Lease liabilities	14	2,762	2,599
Accruals, provisions and other payables		4,287	4,244
Derivative financial instruments		1	2
Current income tax liabilities		–	342
		<u>11,616</u>	<u>11,997</u>
Total liabilities		<u>46,510</u>	<u>49,279</u>
Total equity and liabilities		<u>65,804</u>	<u>68,300</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.* (the “Company”) 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 1 June 2023.

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 which are carried at fair value.

(i) Amendments to standards adopted by the Group

The Group has applied the following amendments to standards or annual improvements for the first time for their annual financial year commencing 1 April 2022:

Amendments to IFRS 16	Covid-19 Related Rent Concessions Beyond 2021
Amendments to IFRS 3, IAS 16 and IAS 37	Narrow-scope Amendments
Annual Improvement to IFRS Standards 2018–2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41

(ii) **New standard, amendments to standards and interpretations (collectively, the “Amendments”) not yet adopted**

Certain amendments that have been published but not effective for 31 March 2023 reporting period and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
IFRS 17 and Amendments to IFRS 17	Insurance Contracts	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 IAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
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

	2023 ¥ million	2022 ¥ million
Revenue		
Gross pay-ins	119,837	108,075
Less: gross pay-outs	<u>(97,942)</u>	<u>(86,999)</u>
Revenue from pachinko and pachislot hall business	21,895	21,076
Revenue from amusement arcades	1,710	359
Vending machine income	378	356
Revenue from hotel operations	149	39
Revenue from restaurant operations	<u>652</u>	<u>379</u>
	<u><u>24,784</u></u>	<u><u>22,209</u></u>

During the year ended 31 March 2023, revenue recognised that was included in the contract liabilities balances of rental receipt in advance and unutilised balls and tokens at the beginning of the year amounted to ¥95 million (2022: ¥100 million) and ¥1,371 million (2022: ¥1,192 million), respectively.

As at 31 March 2023, 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 ¥165 million (2022: ¥171 million) and ¥1,710 million (2022: ¥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 (the “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 2023 and 2022 are as follows:

	Year ended 31 March 2023				Total ¥ million
	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operations	Others	
	Japan ¥ million	Southeast Asia ¥ million	China ¥ million	Japan ¥ million	
Timing of revenue recognition					
Over time	22,273	1,710	-	149	24,132
At a point in time	-	-	172	480	652
Segment revenue from external customers	<u>22,273</u>	<u>1,710</u>	<u>172</u>	<u>629</u>	<u>24,784</u>
Segment results	2,287	155	(113)	(121)	2,208
Corporate expenses					<u>(845)</u>
Profit before income tax					1,363
Income tax expense					<u>(310)</u>
Profit for the year					<u><u>1,053</u></u>
Other segment items					
Depreciation and amortisation expenses	(3,577)	(495)	(73)	(26)	(4,171)
Impairment loss on right-of-use assets	(319)	-	-	(52)	(371)
Impairment loss on property, plant and equipment	(176)	-	-	(38)	(214)
Impairment loss on irrecoverable prepayments	-	-	-	(1)	(1)
Finance income	67	17	-	-	84
Finance costs	<u>(929)</u>	<u>(42)</u>	<u>(4)</u>	<u>(4)</u>	<u>(979)</u>

	Year ended 31 March 2022				
	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operations	Others	Total
	Japan ¥ million	Southeast Asia ¥ million	China ¥ million	Japan ¥ million	¥ million
Timing of revenue recognition					
Over time	21,432	359	–	39	21,830
At a point in time	–	–	107	272	379
	<u>21,432</u>	<u>359</u>	<u>107</u>	<u>311</u>	<u>22,209</u>
Segment revenue from external customers					
	21,432	359	107	311	22,209
Segment results	3,784	(330)	(264)	(188)	3,002
Corporate expenses					<u>(3,173)</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>

The segment assets as at 31 March 2023 and 2022 are as follows:

	Pachinko and pachislot hall operations	Amusement arcade operations	Restaurant operations	Others	Total
	Japan ¥ million	Southeast Asia ¥ million	China ¥ million	Japan ¥ million	¥ million
As at 31 March 2023					
Segment assets	52,528	1,806	273	766	55,373
Unallocated assets					5,016
Deferred income tax assets					5,415
Total assets					65,804
Addition to non-current assets other than financial instruments and deferred tax assets					
	<u>2,322</u>	<u>534</u>	<u>-</u>	<u>9</u>	<u>2,865</u>
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>

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

	2023 ¥ million	2022 ¥ million
Japan, country of domicile	42,474	44,783
Southeast Asia	877	576
China	-	-
	<u>43,351</u>	<u>45,359</u>

No single external customer contributed more than 10% revenue to the Group's revenue for the years ended 31 March 2023 and 2022.

5 OTHER INCOME AND OTHER GAINS, NET

	2023 ¥ million	2022 ¥ million
Other income		
Rental income	221	214
Income from expired IC and membership cards	24	22
Dividend income	25	21
Compensation and subsidies	19	135
Income from scrap sales of used pachinko and pachislot machines	152	170
Others	47	83
	<u>488</u>	<u>645</u>
Other gains, net		
Gains on modification of leases (<i>Note</i>)	52	1,423
Loss on change in fair value of financial assets at fair value through profit or loss	(7)	(1)
Gain on change in fair value of derivative financial instruments	7	8
(Loss)/gain on disposal of property, plant and equipment	(10)	23
Loss on write-off of intangible assets	-	(33)
Others	111	116
	<u>153</u>	<u>1,536</u>

Note: Gain on modification of leases during the year ended 31 March 2023 mainly represents gains from termination of leases in relation to closure of one restaurant in Japan and modification of lease in relation to the restaurant operation in China (2022: mainly represents 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

	2023	2022
	¥ million	¥ million
Auditors' remuneration		
— Audit fees	112	109
— Other services	22	11
Employee benefits expenses		
— Hall operations	4,386	4,480
— Administrative and others	1,441	1,291
Operating lease rental expense in respect of land and buildings	243	133
Depreciation of property, plant and equipment	1,468	1,593
Depreciation of right-of-use assets	2,618	2,521
Depreciation of investment properties	23	23
Amortisation of intangible assets	62	59
Other taxes and duties	343	331
Utilities expenses	1,210	838
Consumables and cleaning	851	644
Outsourcing service expenses	709	568
Prizes procurement expenses to wholesalers	1,013	721
Pachinko and pachislot machines expenses (<i>Note</i>)	6,537	6,649
Advertising expenses	899	802
Impairment loss on irrecoverable prepayments	1	61
Legal and professional fees	124	117
Others	520	574
	22,582	21,525

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

	2023 ¥ million	2022 ¥ million
Finance income		
Bank interest income	2	2
Interest income on lease receivables	34	35
Other interest income	48	42
	<u>84</u>	<u>79</u>
Finance costs		
Bank borrowings	(101)	(134)
Lease liabilities	(750)	(784)
Provision for unwinding discount	(128)	(193)
	<u>(979)</u>	<u>(1,111)</u>
Finance costs, net	<u>(895)</u>	<u>(1,032)</u>

8 INCOME TAX EXPENSE

	2023 ¥ million	2022 ¥ million
Current income tax		
— Japan	346	599
— Other Asian countries	(27)	(2)
	<u>319</u>	<u>597</u>
Deferred income tax	(9)	419
	<u>310</u>	<u>1,016</u>

No provision for Hong Kong profits tax or China income tax have been made for the years ended 31 March 2023 and 2022 as the Group did not generate any assessable profits arising in Hong Kong and China during the years ended 31 March 2023 and 2022.

Japan corporate income tax include national corporate income tax, inhabitants tax, and enterprise tax, and has been calculated on the estimated assessable profit for the year. During the year ended 31 March 2023, the aggregated rates of national corporate income tax, inhabitants tax, and enterprise tax resulted in statutory income tax rates of 29.92% (2022: 29.92%).

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

	2023 ¥ million	2022 ¥ million
Profit/(loss) before income tax	<u>1,363</u>	<u>(171)</u>
Tax calculated at applicable Japan corporate income tax of 29.92% (2022: Same)	408	(51)
Effect of difference in tax rates of subsidiaries	67	131
Income not subject to tax	(2)	(1)
Expenses not deductible for tax purpose	185	461
Unrecognised tax losses	78	131
Unrecognised deductible temporary differences	(159)	345
Utilisation of previously unrecognised tax losses	<u>(267)</u>	<u>–</u>
	<u>310</u>	<u>1,016</u>

9 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 March 2023 and 2022.

	2023	2022
Profit/(loss) attributable to owners of the Company (¥ million)	<u>1,134</u>	<u>(1,181)</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>1,195,850,460</u>	<u>1,195,850,460</u>
Basic and diluted earnings/(loss) per share (¥)	<u>0.95</u>	<u>(0.99)</u>

No diluted earnings/(loss) per share is presented as there was no potential dilutive shares during the years ended 31 March 2023 and 2022. Diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share.

10 DIVIDENDS

During the year ended 31 March 2023, the Company paid final dividend of ¥478 million (¥0.40 per common share) and interim dividend of ¥203 million (¥0.17 per common share) to their shareholders in respect of the years ended 31 March 2022 and 31 March 2023, respectively.

The board of directors of the Company declared a final dividend of ¥0.11 per common share totalling ¥132 million in respect of the year ended 31 March 2023. These consolidated financial statements do not reflect this dividend payable.

11 TRADE RECEIVABLES

	2023 ¥ million	2022 ¥ million
Trade receivables	<u>107</u>	<u>74</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 2023 and 2022, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	2023 ¥ million	2022 ¥ million
Less than 30 days	106	46
Over 30 days	<u>1</u>	<u>28</u>
	<u>107</u>	<u>74</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 2023 and 2022 and were mainly denominated in ¥.

12 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 31 March 2023 and 2022 were as follows:

	2023 ¥ million	2022 ¥ million
Less than 30 days	51	15
Over 30 days	<u>74</u>	<u>93</u>
	<u>125</u>	<u>108</u>

The carrying amounts of trade payables approximate their fair values as at 31 March 2023 and 2022 and were mainly denominated in ¥.

13 BORROWINGS

	2023 ¥ million	2022 ¥ million
Non-current portion		
Bank loans	3,112	3,158
Syndicated loans	2,653	3,781
	<u>5,765</u>	<u>6,939</u>
Current portion		
Bank loans	2,900	2,557
Syndicated loans	1,541	2,145
	<u>4,441</u>	<u>4,702</u>
Total borrowings	<u>10,206</u>	<u>11,641</u>

As at 31 March 2023 and 2022, the Group's borrowings were repayable as follows:

	2023 ¥ million	2022 ¥ million
Within 1 year	4,441	4,702
Between 1 and 2 years	2,366	2,294
Between 2 and 5 years	3,281	4,065
Over 5 years	118	580
	<u>10,206</u>	<u>11,641</u>

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

	2023	2022
Bank loans	1.57%	1.62%
Syndicated loans	0.97%	0.93%

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

	2023 ¥ million	2022 ¥ million
Property, plant and equipment	9,230	9,542
Investment properties	572	592
Deposits and other receivables	162	166
	<u>9,964</u>	<u>10,300</u>

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

	2023 ¥ million	2022 ¥ million
Floating rate		
— Expiring over 1 year	<u>1,682</u>	<u>1,225</u>

The carrying amounts of borrowings of the Group approximate their fair values as at 31 March 2023 and 2022 and were denominated in ¥.

14 LEASES

During the year ended 31 March 2023, the Group entered into a number of lease agreements for and recognised additions of right-of-use assets of ¥1,932 million (2022: ¥3,402 million).

During the year ended 31 March 2022, the Group received COVID-19-related rent concessions in the form of waiver or reduction on fixed monthly rental and has accounted such rent concessions as lease modifications. No COVID-19-related rent concession was received by the Group for the year ended 31 March 2023.

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

	2023 ¥ million	2022 ¥ million
Right-of-use assets		
Buildings	21,891	21,959
Leasehold improvement	3,000	3,963
Equipment and tools	223	243
Vehicle	31	28
	<u>25,145</u>	<u>26,193</u>
Lease liabilities		
Current	2,762	2,599
Non-current	26,968	28,090
	<u>29,730</u>	<u>30,689</u>

For the year ended 31 March 2023, as a result of the impairment review of CGUs with impairment indicator and annual impairment assessment on goodwill, impairment loss of approximately ¥371 million (2022: ¥759 million) has been recognised on right-of-use assets.

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

	2023 ¥ million	2022 ¥ million
Depreciation of right-of-use assets		
Buildings	2,329	2,019
Leasehold improvement	231	440
Equipment and tools	43	43
Vehicle	15	19
	<u>2,618</u>	<u>2,521</u>
Interest expense (included in finance cost)	750	784
Expense relating to short-term leases (included in hall operating expenses)	232	127
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	11	6
	<u>11</u>	<u>6</u>

The total cash outflow for leases during the year ended 31 March 2023 was ¥3,856 million (2022: ¥4,039 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

After experiencing three difficult years since March 2020 due to the impact of the Novel Coronavirus (COVID-19), the domestic economy in the financial year ended 31 March 2023 showed signs of recovery, particularly in private consumption, as social life living with COVID-19 began to become the norm. On the other hand, the year was also marked by concerns about downward pressure on the economy, as rising energy costs due to the situation in Ukraine and other factors, and rising prices due to the weak Japanese Yen and other factors reduced household purchasing power. Under these circumstances, in our mainstay pachinko business, the Group focused on speeding up the hypotheses and verification cycle of the Sales Division and speeding up decision-making on site, close to customers, in the belief that a keen sense of customer needs is directly linked to competitiveness. This enabled us to accurately grasp customer needs and profit opportunities and to improve our pachinko halls management capabilities. As a result, total revenue (gross pay-ins) recorded a year-on-year increase of 11% and we believe we were able to firmly meet customer demand without falling behind the recovery trend in domestic economic activities. In the overseas business, the economies of Vietnam and Cambodia were recovering ahead of the Japanese economy. Our amusement arcades business in these two countries had noted a satisfactory year-on-year increase of 376%, recovering to a level comparable to pre-pandemic levels.

In the mainstay pachinko business, we continued to ensure compliance with the industry's infection prevention guidelines and independently worked to create an environment in which customers can safely visit our halls and play comfortably.

In the industry, the introduction of smart slots, the next generation of new amusement machines, started in November 2022. The Group has been systematically preparing for this and began installing these machines in our own halls in November 2022. The main feature of this gaming machine is that it is medal-less. As medals are counted digitally, there is no need to carry them around, which is a great advantage for customers in terms of convenience and hygiene. The supply of these smart slots is not necessarily plentiful due to the shortage of semiconductors, etc., and full-scale introduction is yet to come, but they have been receiving solid support from customers. In the installation of existing machines, we have also made steady efforts to analyse the trends of customers and competitors and reflected them in appropriate hall development. We believe that we have achieved solid results in a year of coexistence with COVID-19.

In current fiscal year, we continued to review our hall operations and accumulated a variety of know-how, such as promoting labour saving in hall management while retaining services that provide a high level of customer satisfaction.

We also promoted digital transformation, which will lead to the future, such as introducing self-service counters at 18 halls and making prize exchange process contactless. By introducing a next-generation energy management system that combines artificial intelligence and behavioral economics to all halls, we were able to further strengthen cost management, which will lead to a sustained strengthening of our structure from the next fiscal year onwards.

We plan to start installing smart pachinko machines, a new type of machine with balls circulating within the machine, from next fiscal year. In addition to the potential of the machines themselves, these smart machines have the potential for new hall layouts and location environments that are not bound by conventional frameworks, as the attached equipment is not complicated. In the domestic pachinko business, we will also accelerate the digitalisation of the business to further improve cost efficiency, while building a solid profit structure for the future by investing in next-generation machines and investing in new halls in existing and new formats, against the backdrop of the financial base we have built up to date.

For the operations in China and Southeast Asia, there were significant differences in the local government's policy in response to COVID-19. Operating revenue at Dream Games, a subsidiary that operates amusement arcades in Vietnam and Cambodia, increased significantly by 376% year-on-year to ¥1,710 million. This was mainly due to the decision made by each government to effectively converge COVID-19 and the country's economy quickly getting back on a recovery track.

Dream Games reduced its costs under the regulations during COVID-19 pandemic but was preparing to resume operations with minimal employee redundancies. This meant that experienced employees were able to return to operations immediately after the restrictions were lifted, enabling the company to get operations back to normal earlier than its competitors.

We also took advantage of this opportunity to invest in new machinery and refurbish our outlets, and succeeded in linking the economic recovery to a steady increase in the number of customers visiting outlets. Furthermore, we opened one new outlet in Cambodia in the current financial year. Currently, we have nine operating outlets in Vietnam and three in Cambodia.

The amusement arcade business in both Vietnam and Cambodia is based on the strategy that opening outlets in leading shopping malls. In the next fiscal year, we plan to develop the operating structure of the organisation and strengthen the earnings structure of existing outlets to build a steady earnings base.

The GDP growth rates of Vietnam and Cambodia in 2022 reached 8.0% and 5.2% respectively, and according to the forecast of the International Monetary Fund, strong economic growth of over 5% is expected in the future. We believe that both countries are still in the process of developing their economies and that consumption growth and expansion of the leisure market will continue.

The joint business operating a Japanese restaurant food court (YOKOCHO) in Shenzhen, Guangdong Province, China, opened in July 2019, was indefinitely suspended in February 2020 due to the spread of COVID-19 in China. The business was subsequently resumed in August 2021, as the COVID-19 situation in China had calmed down. However, the business environment remained unstable. Although the restrictions on COVID-19 have been lifted, it is expected that it will take some time to return to normal.

As a medium-term strategy, the Group's priority is to secure revenue and increase market share in its core business, pachinko business, and will actively invest in new hall openings and merger and acquisition with the aim of establishing a structure that can ensure stable earnings. At the same time, investments will be made to refurbish existing halls and to promote digitalisation with the aim of further increasing operational efficiency. In addition, as the size of the pachinko market is declining from a long-term perspective, the Group plans to expand into new businesses in Japan.

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 increased by ¥819 million, or 3.9%, from ¥21,076 million in 2022 to ¥21,895 million in 2023. The improvement in revenue was attributable to the resumption of pachinko hall operations and gradual recovery of hall traffic after the relaxation of pandemic measures, and replacement of gaming machines which triggered higher customer turnover.

Gross pay-ins

For the year ended 31 March 2023, the Group's gross pay-ins from pachinko and pachislot business amounted to ¥119,837 million, comprising revenue from suburban halls of ¥117,441 million (2022: ¥105,840 million) and urban halls of ¥2,396 million (2022: ¥2,235 million), representing an increase of ¥11,601 million, or 11.0%, and of ¥161 million, or 7.2%, 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 ¥86,999 million in 2022 to ¥97,942 million in 2023, an increase of ¥10,943 million, or 12.6%, which corresponded to the rise in gross pay-ins.

Revenue margin

The revenue margin in current year dropped by 1.2% from 19.5% in 2022 to 18.3% in 2023. The decrease 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 surged from ¥359 million in 2022 to ¥1,710 million in current year. The amount comprised revenue derived from Vietnam and Cambodia amounting to ¥1,316 million and ¥394 million, respectively (2022: ¥256 million and ¥103 million, respectively). The hike was attributable to the lifting of COVID-19 restrictions as announced by the local governments, allowing all game arcades in both Vietnam and Cambodia to resume their businesses.

Other revenue

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

Vending machines income amounted to ¥378 million in 2023. The increase of ¥22 million as compared to ¥356 million in 2022 was attributable to the full resumption of operation of all pachinko halls after ending all quasi state-emergency curbs in March 2022.

Income from hotel operation amounted to ¥149 million in 2023, recording a significant increase of ¥110 million as compared to 2022 of ¥39 million. The increase in hotel income was resulted from the re-opening of hotel premises in November 2021 after a six months' closure for hotel retrofit.

Revenue from restaurant operations amounted to ¥652 million for the year ended 31 March 2023. The increase of ¥273 million, or 72.0% as compared to ¥379 million in 2022 was resulted from the resumption of YOKOCHO business in current year after a prolonged intermittent business suspension, bringing in an additional revenue of ¥64 million; and the increase in income from LIZARRAN business by ¥209 million following the cancelation of "shorten business hours" requirement under the state of emergency declaration in late 2021.

Hall operating expenses

Hall operating expenses increased by ¥591 million, or 3.2%, from ¥18,279 million in 2022 to ¥18,870 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 ¥6,537 million, ¥4,386 million and ¥3,612 million, respectively, for the year ended 31 March 2023 (31 March 2022: ¥6,649 million, ¥4,480 million and ¥3,505 million, respectively).

The rise in hall operating expenses was mainly due to the increase in utilities and hall consumable expenses as a result of the rise in global energy prices and minor renovations carried out in several halls during the year.

Administrative and other operating expenses

Administrative and other operating expenses increased by ¥466 million, or 14.4% from ¥3,246 million for the year ended 31 March 2022 to ¥3,712 million in 2023 as a result of the increase in staff related cost and advertising expense.

Impairment loss

Impairment loss on property, plant and equipment, right-of-use assets and other non-current assets amounted to ¥586 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”).

The management noted that the Group’s financial performance is highly sensitive to changes in market situations. Taking into account the keen competition within the industries, the management considered CGU with operating loss recorded in recent two reporting periods and whether budget was met in current period 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. As a result, the Group recognised an impairment loss of ¥214 million, ¥371 million, and ¥1 million over plant, property and equipment, right-of-use assets and other non-current assets, respectively for the year ended 31 March 2023 (for the year ended 31 March 2022: ¥168 million, ¥759 million, ¥1,077 million and ¥61 million over plant, property and equipment, right-of-use assets, intangible assets and other non-current assets, respectively).

Finance costs

Finance costs, net amounted to ¥895 million for the year ended 31 March 2023 as compared to ¥1,032 million in 2022. The drop was attributable to the decrease in interest expense on lease liabilities and borrowings.

Profit/(loss) attributable to owners of the Company, basic earnings/(loss) per share and dividend

Profit attributable to shareholders of the Company of ¥1,134 million was recorded for the year ended 31 March 2023, as compared to loss attributable to shareholders of the Company of ¥1,181 million for the year ended 31 March 2022. The improvement in financial performance was resulted from full operations of all pachinko halls and amusement arcades, thus, regaining customer visits as mentioned above.

Basic earnings per share for the year ended 31 March 2023 was ¥0.95 (basic loss per share for the year ended 31 March 2022: ¥0.99). The Board has declared a final dividend of ¥0.11 per common share for the year ended 31 March 2023 (31 March 2022: ¥0.40).

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 2023 and 2022, and operating cash flows before movements in working capital of the Group for the years ended 31 March 2023 and 2022, respectively:

	As at 31 March	
	2023	2022
	¥ million	¥ million
Cash and cash equivalents	10,435	11,451
Bank deposits with maturity over 3 months	528	242
	10,963	11,693
Bank loans	6,012	5,715
Syndicated loans	4,194	5,926
Lease liabilities	29,730	30,689
	39,936	42,330
Working capital (<i>Note 1</i>)	780	1,015
Total equity	19,294	19,021
Gearing ratio (<i>Note 2</i>)	1.5	1.6

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	
	2023	2022
	¥ million	¥ million
Operating cash flows before movements in working capital	6,948	5,681

As at 31 March 2023, net current assets of the Group totalled ¥780 million (31 March 2022: net current assets ¥1,015 million), and current ratio was 1.07 as at 31 March 2023 (31 March 2022: 1.08). As at 31 March 2023, there were cash and cash equivalents of ¥10,435 million (31 March 2022: ¥11,451 million), in which ¥9,374 million was denominated in Japanese Yen, ¥619 million was denominated in United States dollar, ¥307 million was denominated in Hong Kong dollar and ¥135 million was denominated in other currencies. As at 31 March 2023, the Group had total borrowings and lease liabilities of ¥39,936 million (31 March 2022: ¥42,330 million). Current portion of bank borrowings and current portion of lease liabilities amounted to ¥7,203 million as at 31 March 2023 (31 March 2022: ¥7,301 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 31 March 2023, the total bank borrowings amounted to ¥10,206 million (31 March 2022: ¥11,641 million), with average effective interest rates on bank borrowings ranged from 0.97% to 1.57% (31 March 2022: 0.93% to 1.62%) per annum. Approximately 7.9% of bank borrowings as at 31 March 2023 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 31 March 2023, 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 2023, gain on fair value for interest rate swap contracts amounted to ¥7 million (2022: ¥8 million).

The Group did not carry out significant foreign currency investment and its debts were all denominated in Japanese Yen as at 31 March 2023. 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 1.5 as at 31 March 2023 (31 March 2022: 1.6).

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:

	2023 ¥ million	2022 ¥ million
Property, plant and equipment	929	927
Right-of-use assets	1,932	3,402
Intangible assets	4	2
	<u>2,865</u>	<u>4,331</u>

CHARGES ON ASSETS

As at 31 March 2023 and 2022, the carrying values of charged assets were as below:

	2023 ¥ <i>million</i>	2022 ¥ <i>million</i>
Property, plant and equipment	9,230	9,542
Investment properties	572	592
Deposits and other receivables	162	166
	<hr/> 9,964 <hr/>	<hr/> 10,300 <hr/>

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2023 and 2022.

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 2023, the Group had 1,494 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 ¥0.11 per common share for the year ended 31 March 2023 (31 March 2022: ¥0.40) on 1 June 2023, and the final dividend will be payable on 12 July 2023 to the shareholders of the Company (the “Shareholders”) whose names appear on the register of members of the Company at close of business on 12 June 2023.

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 1 June 2023 (being 24 to 25 May 2023 and 29 to 31 May 2023).

CORPORATE GOVERNANCE

During the year ended 31 March 2023, 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, 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 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the year ended 31 March 2023. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31 March 2023.

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 2023.

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 2023 as set out in the preliminary 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 opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on this preliminary announcement.

ANNUAL GENERAL MEETING AND RECORD DATE

The annual general meeting of the Company (the "2023 AGM") will be held on 29 June 2023 at 1-24 Hohaccho 2-chome, Koriyama-shi, Fukushima, Japan. Notice of the 2023 AGM will be published and issued to Shareholders in due course. The right to attend and vote at the 2023 AGM will be granted to the Shareholders whose names appear on the Company's share register at the close of business on 23 June 2023.

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 2023 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 23 June 2023.

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 2023 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, 1 June 2023

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*