

# NIRAKU GC HOLDINGS

## (Hong Kong Stock Exchange: 1245)

Consolidated Fiscal Year (Million Yen)	Revenue	Operating profit	Profit before income tax	Profit attributable to owners of the Company	EPS (Yen)	DPS (Yen)
FY03/2018	26,554	723	213	(15)	(0.013)	0.12
FY03/2019	28,325	1,553	1,093	610	0.510	0.15
FY03/2020	28,046	1,955	581	179	0.150	0.10
FY03/2019	YoY	6.7%	114.8%	413.1%	-	-
FY03/2020	YoY	(1.0%)	25.9%	(46.8%)	(70.7%)	-

Source: Company Data, WRJ Calculation

### 1.0 Executive Summary (17 November 2020)

#### Proactive Shutdowns

NIRAKU GC HOLDINGS, aiming at shifting to "comprehensive entertainment company" from a long-term perspective, is currently in the process of reforming its business given the impacts stemming from COVID-19. With respect to the mainstay operations to run pachinko halls in the eastern Japan region, the Company is proceeding with the strategy to close down loss-making halls whose gross pay-ins are unfavorable, while concentrating own resources upon those of seeing profitability relatively higher at the same time. In the first place, the Company has distinguished expertise to run pachinko halls, having resulted in increased market share for itself in FY03/2020, although the size of the market had continued declining gradually. With the strengths, the Company should be able to see benefits of being one of the survivors from a long-term perspective. In other words, the recent state of closing down halls could be regarded as a process to do so in the future. Meanwhile, new business developments in ex-Japan Asia, which are to drive shift to "comprehensive entertainment company", are also exposed to tough environment in line with the impacts stemming from COVID-19. For example, the Company has suspended the operations to run Japanese dish food court with a concept of YOKOCHO in Shenzhen Upper Hills or urban-type shopping complex based in Shenzhen, China, since around the end of FY03/2020. However, the Company is keen on starting over, when the market conditions recover in the future, to make progress with its aim to shift to "comprehensive entertainment company" together with other measures to do so.

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## 2.0 Company Profile

### Running Pachinko Halls

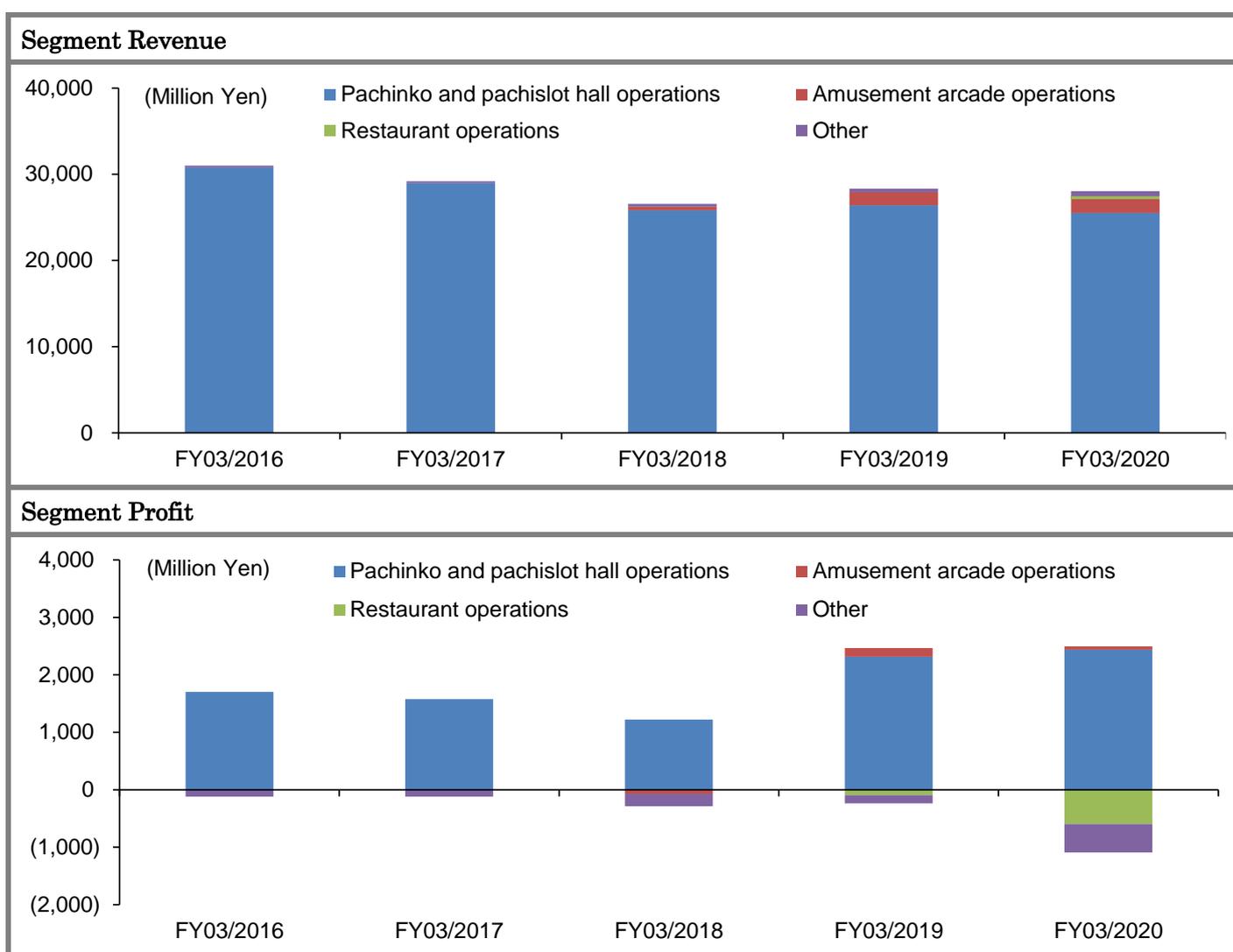
<b>Company Name</b>	NIRAKU GC HOLDINGS, INC. <a href="#">Website</a> <a href="#">IR Information</a> <a href="#">Share Price (Japanese)</a> 
<b>Established</b>	10 January 2013
<b>Listing</b>	8 April 2015: Hong Kong Stock Exchange Mainboard (CODE: 1245)
<b>Capital</b>	¥3,000m (as of the end of March 2020)
<b>No. of Shares</b>	1,195,850,460 shares (as of the end of March 2020)
<b>Main Features</b>	<ul style="list-style-type: none"> <li>● Running pachinko halls in the eastern Japan region (collective 53 halls as of the end of FY03/2020)</li> <li>● 21 halls in Fukushima, 9 in Tokyo and 23 in other prefectures</li> <li>● Focus on business reform at the moment</li> </ul>
<b>Business Segments</b>	I . Pachinko and pachislot hall operations II . Amusement arcade operations III . Restaurant operations IV . Other
<b>Top Management</b>	Chairman of the Board, Executive Director and CEO: Hisanori Taniguchi
<b>Shareholders</b>	HKSCC nominees Limited 31.05%, SMBC Trust Bank Ltd. 19.16%, Hisanori Taniguchi 17.81%, Tatsuo Taniguchi 13.52% (as of the end of March 2020)
<b>Head Office</b>	Koriyama-city, Fukushima-prefecture, JAPAN
<b>No. of Employees</b>	Consolidated: 1,932, unconsolidated: 15 (as of the end of March 2020)

Source: Company Data

## 3.0 Recent Trading and Prospects

### FY03/2020 Results

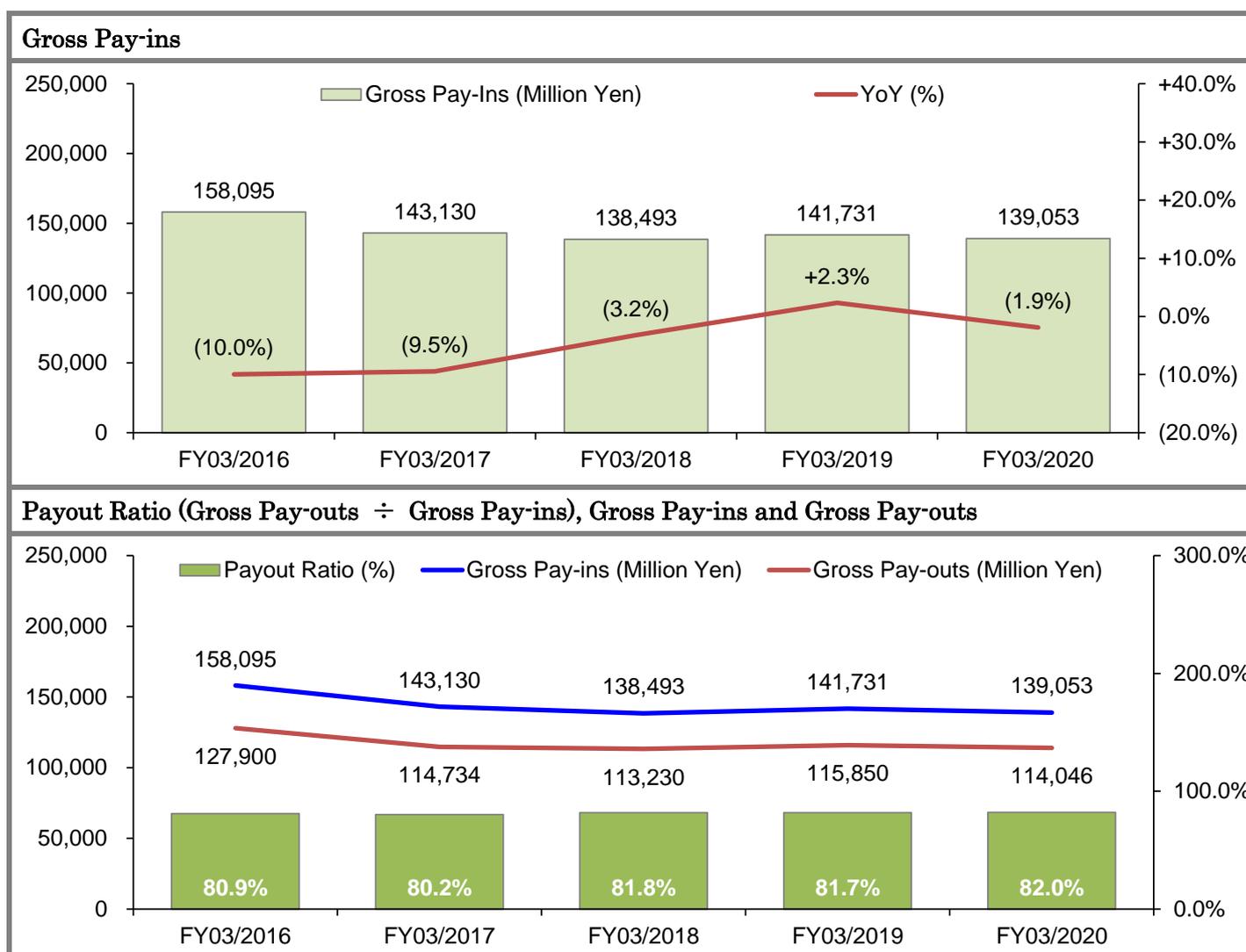
In FY03/2020, revenue came in at ¥28,046m (down 1.0% YoY), operating profit ¥1,955m (up 25.9%), profit before income tax ¥581m (down 46.8%) and profit attributable to owners of the Company ¥179m (down 70.7%). Meanwhile, the Company paid dividend of ¥0.10 as of the end of H1, but none as of the fiscal yearend, having paid full-year dividend of ¥0.10, implying payout ratio of 66.7%, as a result. Compared with full-year dividend of ¥0.15, implying payout ratio of 29.4%, paid in FY03/2019, the dividend was reduced by ¥0.05. The Company aims to pay dividend with a payout ratio of 30%, while dividend was paid in line with this dividend policy in FY03/2019. It was also the case for that of the end of H1 in FY03/2020, but dividend was suspended as of the fiscal yearend, because profit attributable to owners of the Company, i.e., the source of dividend, came down sharply on a full-year basis, given unexpected impairment loss on Restaurant operations, etc. in H2.



Source: Company Data, WRJ Calculation

### Pachinko and pachislot hall operations

In Pachinko and pachislot hall operations, segment revenue came in at ¥25,487m (down 3.4%), segment profit ¥2,438m (up 5.4%) and segment profit margin 9.6% (up 0.8% points). Segment revenue comprised revenue from pachinko and pachislot hall business of ¥25,007m (down 3.4%) and vending machine income of ¥480m (down 5.3%). Meanwhile, as a whole for the Company, revenue came in at ¥28,046m (down 1.0%), segment profit ¥1,404m (down 37.0%) and segment profit margin 5.0% (down 2.9% points). In light of this, Pachinko and pachislot hall operations is considered to form the core of business as a whole for the Company, having accounted for 90.9% of revenue as a whole for the Company and 173.6% of segment profit. As mentioned earlier, the Company saw profit before income tax of ¥581m (down 46.8%), which equates to segment profit of ¥1,404m (down 37.0%) as a whole for the Company after deducting corporate expenses of ¥823m (down 27.3%).



Source: Company Data, WRJ Calculation

In Pachinko and pachislot hall operations, the Company runs pachinko halls in the eastern Japan region. In FY03/2020, there were no new store openings or closures, so the Company operated collective 53 halls as of the beginning of the fiscal year and as of the end of the fiscal year, i.e., 21 in Fukushima, 9 in Tokyo and 23 in other in the eastern Japan region by prefecture.

Revenue from pachinko and pachislot hall business, accounting for the bulk of segment revenue, equates to gross pay-ins of ¥139,053m (down 1.9%) from pachinko halls operated by the Company after deducting gross pay-outs of ¥114,046m (down 1.6%). So-called payout ratio (gross pay-outs ÷ gross pay-ins) came in at 82.0% (up 0.3 % points), implying the ratio of gross pay-outs against gross pay-ins became slightly larger, having resulted in the rate of decrease for pachinko and pachislot hall business rather larger than that of gross pay-ins to the extent of the increased payout ratio. Meanwhile, vending machine income is of vending machines for beverages and other items installed in pachinko halls operated by the Company.

The reasons cited for the sluggishness in gross pay-ins include the impacts of the consumption tax hike (8% to 10%, implemented since 1 October 2019), the decline in gambling features of pachinko and pachislot machines following the introduction of new regulations, the enhanced standards for restriction on advertising that may arouse the passion for gambling in line with enforcement of BASIC LAW ON MEASURES AGAINST GAMBLING ADDICTION and the suspended operations for a whole in some halls due to the impacts of Typhoon No. 19 (4 October to 20 October 2019). Meanwhile, the Company suggests the rate of decline in the market for gross pay-ins was larger than that of the Company, implying that the Company saw increased market share. This was achievable due to the Company's distinguished expertise to run pachinko halls, according to the Company.

On the other hand, in H1 FY03/2021 (April to September 2020), it appears that the Company has suffered from substantially decreased gross pay-ins just like peers, given the impacts stemming from COVID-19. From the beginning of the period, the government issued a declaration of emergencies (April 7 to 25 May 2020) due to the spread of COVID-19 and each local government requested to refrain from operating pachinko halls. The Company sincerely responded to this request and suspended operations of all the collective 53 halls through April to May. Meanwhile, the operations across the board have been gradually resumed since around the end of May, i.e., after the lifting of declaration of emergencies.

In the first place, the market for pachinko hall operations, which the Company is facing, is inclined to be gradually shrinking. In other words, from a long-term perspective, gross pay-ins are expected to remain sluggish in the market. In Japan, the population continues to decline gradually, while increased diversify of entertainment is ongoing, which inevitably leads to a situation for pachinko hall operations belonging to existing domains to suffer from continued sluggishness. In FY03/2020, as mentioned above, the decline in gambling features of pachinko and pachislot machines following the introduction of new regulations was another factor for the sluggishness of gross pay-ins, while this trend may continue for the future.

As of 1 October 2020, the Company closed down four halls, i.e., NIRAKU Bansei Hall (Yonezawa-city, Yamagata-prefecture), NIRAKU Koriyama-Ekimae Hall (Koriyama-city, Fukushima-prefecture), NIRAKU Nakano Hall (Nakano-ku, Tokyo) and NIRAKU Ota-Zoushiki Hall (Ota-ku, Tokyo). All those halls saw limited recovery in gross pay-ins after the lifting of declaration of emergencies and it appears that the Company has strategically closed them down for the sake of reallocation of management resources in the post-corona era. Prior to this, the Company closed down NIRAKU BIZYUTSUKAN-DORI Hall (Koriyama-city, Fukushima-prefecture) on 14 June 2020, which was of constructive in a respect of having been done so integral with plan to newly open a large-scale hall (NIRAKU Koriyama-Ohmachi Hall) in the neighborhood to be mentioned below, according to the Company.

### NIRAKU Koriyama-Ohmachi Hall



Source: Company Data

On 28 March 2019, the Company completed acquisitions of land (10,869 m<sup>2</sup>) and building for large-scale hall (currently, NIRAKU Koriyama-Ohmachi Hall) operated by a competitor, which is located in front of Koriyama Station, a critical site, with a contribution of ¥3,768m. Koriyama-city (population: 330,000) is designated as a core city in Fukushima-prefecture (population: 1,820,000) and a regional city with an economic scale second only to Sendai-city, Miyagi-prefecture (population: 1,090,000) in Tohoku. In those days, the Company was running no less than 10 halls in Koriyama-city out of 21 halls based in Fukushima-prefecture as a result of successful dominance strategy implemented in Koriyama-city. The Company, with this as the key strength, was to further make progress for the dominance strategy by means of switching the operations of large-scale hall by a competitor in the said area to its own operations.

During the initial 10-month period (April 2019 to January 2020) after the acquisitions of the said property, the former owner continued to operate the hall and the Company received a rental fee of ¥24m per month, followed by the renovation of the hall by the Company and then commencement of the operations on 8 August 2020 for NIRAKU Koriyama-Ohmachi Hall (Koriyama-city, Fukushima-prefecture) with 1,029 units of machines (644 units of pachinko and 385 units of pachislot). When compared with NIRAKU BIZYUTSUKAN-DORI Hall (Koriyama-city, Fukushima-prefecture) closed down beforehand, this hall has the number of pachinko and pachislot machines installed roughly doubled, while the Company suggests that it has been seen a smooth startup.

### Amusement arcade operations

In Amusement arcade operations, segment revenue came in at ¥1,663m (up 8.3%), segment profit ¥56m (down 63.4%) and segment profit margin 3.4% (down 6.6% points). This business segment represents operations by Dream Games Company (Singapore) acquired and consolidated since November 2017. Dream Games Company (Singapore) mainly operates amusement arcades (medal games, etc.) in Vietnam and Cambodia.

#### Amusement Arcade of Tan Phu Celadon (Ho Chi Minh)



Source: Company Data

As of the end of FY03/2020, the number of facilities stood at 13, collectively, i.e., 11 in Vietnam and two in Cambodia. In Vietnam, the number of amusement arcades stood at 7 and the remaining four facilities were of kids play ground (Dream Kids) for children aged 11 or younger, while both of the facilities in Cambodia were of amusement arcades. At the beginning of the fiscal year, the number of facilities stood at 9, collectively, i.e., 7 in Vietnam and two in Cambodia. In other words, four new facilities were newly opened in Vietnam during FY03/2020 and the number of facilities, collectively, increased in line with this. Meanwhile, segment revenue of ¥1,663 m (up 8.3%) comprised ¥1,292 m (up 1.4%) in Vietnam and ¥371 m (up 42.1%) in Cambodia. In Vietnam, the number of facilities increased significantly, but the increase in revenue was rather limited as it was the first year of all those new openings implemented during the period. In Cambodia, revenue increased nicely, albeit not much in terms of the size.

In Vietnam, the impacts stemming from COVID-19 were significant and it was requested to implement measures to prevent the spread of infections earlier than in Japan. It was March 2020, when the operations were suspended for local AEON MALL and other locations in which Dream Games Company (Singapore) operated facilities, having inevitably resulted in suspension of own operations in line with this.

As the measure for FY03/2021, it has been planned to close down three facilities out of 11 in Vietnam, where recovery of revenue in the future is unlikely. Meanwhile, the Company has newly opened one facility to date and it appears that further new openings are currently considered. At the same time, overall operations are being reviewed in order to assure recovery of earnings. For example, the Company is trying to cut back on personnel expenses, accounting for the bulk of operating expenses.

### Restaurant operations

In Restaurant operations, segment revenue came in at ¥304m, segment profit minus ¥597m (versus minus ¥92m in the previous year) and segment profit margin minus 196.4%. This business segment comprises the operations to run Japanese dish food court with a concept of YOKOCHO in Shenzhen Upper Hills or urban-type shopping complex based in Shenzhen, China.

#### YOKOCHO



Source: [Shenzhen Fan](#)

On 20 July 2019, the Company began locally operating Japanese dish food court comprising 16 restaurants. Thus, the Company booked no revenue in FY03/2019, but some expenses stemming from frontloaded investment, having suffered from segment loss to the same extent. Meanwhile, in FY03/2020, when the operations started during the period, the Company suffered from substantial segment loss, which was the key factor to explain the decline in segment profit as a whole for the Company in terms of performance by business segment.

Revenue started up far lower than originally expected, which was followed by the impacts stemming from COVID-19, having resulted in suspension of the operations at around the end of FY03/2020. In line with this, the Company had to suffer from impairment loss and thus substantial segment loss as a result. All the employees have had left, but the Company has maintained foundations for starting over, assuming a prospective recovery in the circumstances, while planning to dispatch own representatives to investigate the real local circumstances to do so.

#### **Other**

In Other, segment revenue came in at ¥592m (up 47.3%), segment profit minus ¥493m (versus minus ¥145m in the previous year) and segment profit margin minus 88.3% (down 47.2% points). This business segment saw substantially increased loss, which was the largest driver to lower segment profit as a whole for the Company second only to Restaurant operations. This is due mainly to a factor that the Company suffered from impairment loss also here due to the impacts stemming from COVID-19.

Segment revenue comprises revenue from hotel operations of ¥143m (up 8.3%) and a part of revenue from restaurant operations of ¥753m (up 178.9%). Revenue from restaurant operations comprises that of above-mentioned Restaurant operations and that of the rest associated with Other. The latter equates to ¥449m (up 66.3%) in our estimates based on data disclosed by the Company.

With respect to revenue from hotel operations, the Company saw steady increase, albeit small in size. This was driven by high occupancy rate in H1, but the rate has come down sharply in H2 over H1, according to the Company. Since January 2020, demand for accommodations related to business trips and events has declined significantly due to the impacts stemming from COVID-19.

Meanwhile, it appears that the part of revenue from restaurant operations, included in this business segment, has surged as above implied. The operations here are of running restaurants in Japan. As a full-year performance, the Company saw steady increase of revenue in existing restaurants and benefited from a new opening. However, since around the end of February 2020, the market for restaurants as a whole in Japan have started to suffer from the impacts stemming from COVID-19 and the Company was not an exception, having resulted in plummeted revenue. Accordingly, the Company implemented impairment.

### Share of results of an associate

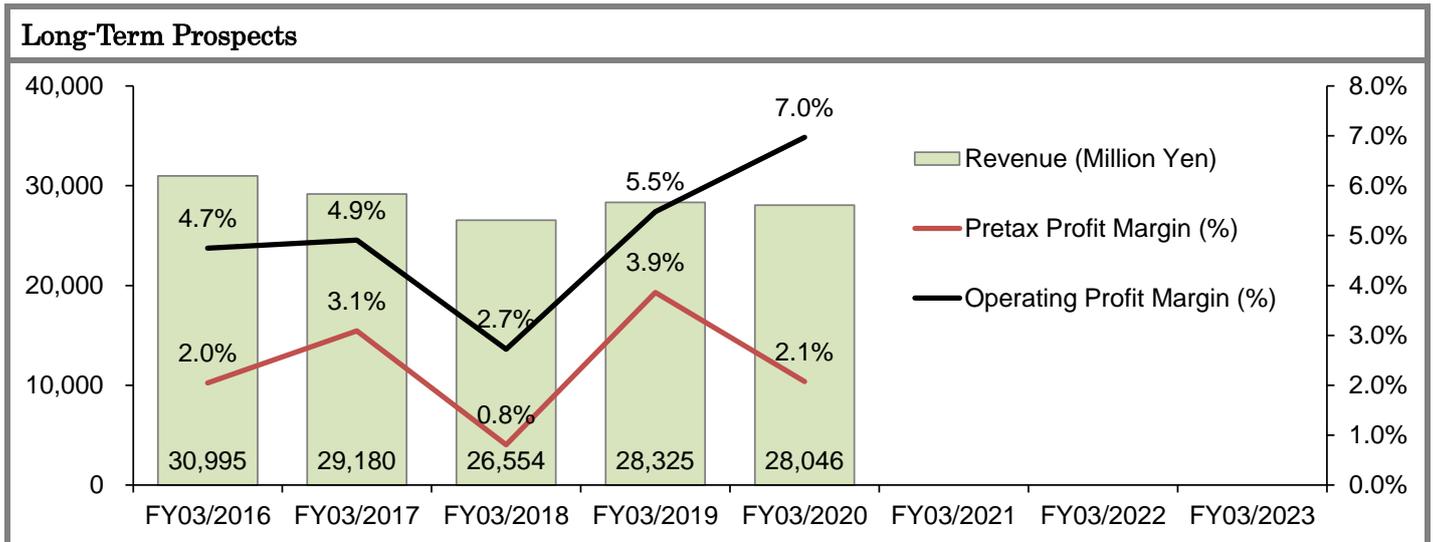
The Company saw share of results of an associate of minus ¥5m in FY03/2019, while breaking even in FY03/2020. This is attributable to a joint company newly established in Hong Kong, whose business is related to e-sports growing worldwide. The Company was trying to propel e-sports business across Asia by means of providing a cross-regional e-sports platform mainly for China (including Hong Kong and Macao), Taiwan, Japan, Korea, Singapore, Malaysia, Thailand and Vietnam. Prospects were good for future, but the Company only suffered from burden of frontloaded investment and thus loss to the same extent in FY03/2019, having resulted in write-off for all the amount of investment. Since then, the Company has not been exposed to any further loss from here.

With successful acquisition of a major sponsor, it was planned to hold large-scale event in Hong Kong where the said joint company is based for November 2019, in order to prove to everyone that preparations were made, e.g., the formation of a league for e-sports at universities in Asia. Nevertheless, this event was not held, given the accelerated impacts stemming from the local issue in those days, i.e., so-called Hong Kong democratization demonstrations which had been in place since March 2019. More recently, the impacts stemming from COVID-19 are going on and thus the said joint company now reconsiders its activity plan.

Meanwhile, as mentioned earlier, the Company saw profit before income tax of ¥581m (down 46.8%), which equates to segment profit of ¥1,404m (down 37.0%) as whole for the Company after deducting corporate expenses of ¥823m (down 27.3%), while it was another factor to comprise profit before income tax in FY03/2019 that the Company saw share of results of an associate of minus ¥5m. Meanwhile, the Company saw breaking even for this in FY03/2020.

## Long-Term Prospects

The Company aims at shifting to "comprehensive entertainment company" from a long-term perspective. Prior to the impacts stemming from COVID-19, the Company had formulated a long-term management strategy in-house to accomplish this aim. The Company's top priority measure was to "strategically and boldly invest" in Pachinko and pachislot hall operations and build a solid business foundation. At the same time, the Company aimed at securing stable earning source and growth trajectory by means of focusing on solidifying the management base of each business overseas through further "advancing the globalization of business portfolio". Nevertheless, the Company is currently in the process of reforming its business given the impacts stemming from COVID-19.



Source: Company Data, WRJ Calculation

In FY03/2021, the Company has been seeing plummeting gross pay-ins for the mainstay Pachinko and pachislot hall operations, while the number of pachinko halls operated has come down by four to date (closedowns of 5 and new opening of one) to collective 49 from collective 53 as of the beginning of the fiscal year. Market trends for the future are largely dependent on the prospective impacts stemming from COVID-19. Nevertheless, it appears that the Company is currently working hard to maintain and/or improve earnings for sure by means of enclosing customers in a step-by-step fashion with careful investigation on their needs for operations of existing halls as well as focusing on the effort to realize stability of utilization for NIRAKU Koriyama-Ohmachi Hall or large-scale one newly opened. Meanwhile, through FY03/2020 to FY03/2021, the Company is to see reduced charges for write-offs to the extent of impairment loss of some ¥690m associated with Restaurant operations, etc. booked in FY03/2020.

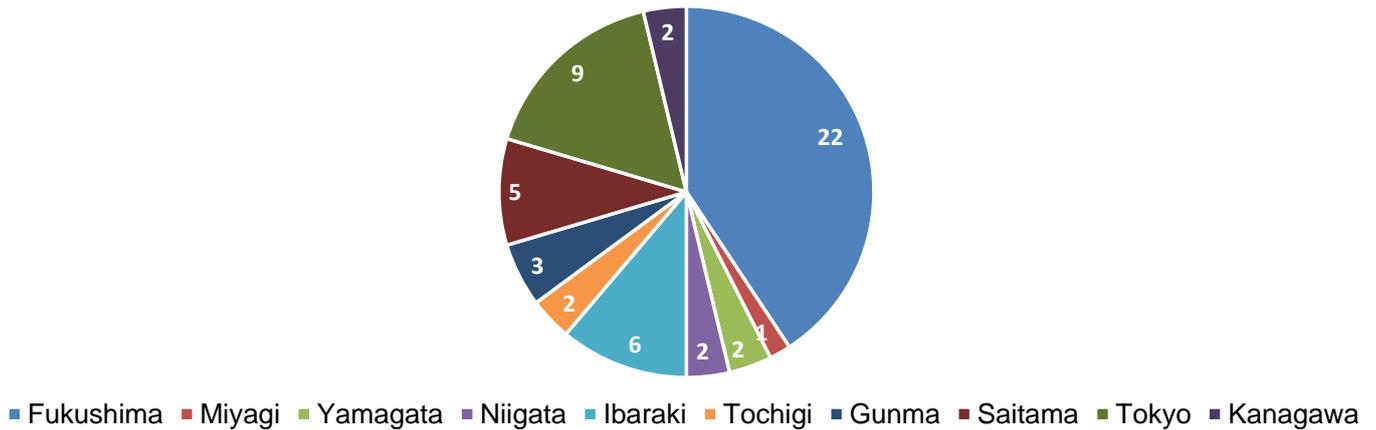
Meanwhile, it has become obligatory to adopt new lease accounting standards starting in FY03/2020 and the Company has changed its accounting processing to cope with this. i.e., IFRS No. 16 Leasing was adopted. For example, hall operating expenses came in at ¥21,910m (down 4.2% YoY) for the mainstay Pachinko and pachislot hall operations, which appears to have been one the key factors for aforementioned improvement of segment profit. However, it was the case that the rent came down sharply in line with the said change in accounting standards and finance costs increased to the corresponding extent instead. Thus, operating profit has become larger due to this change when compared with previous years, while it appears that profit before income tax has been effectively immune. At the same time, right-of-use assets of ¥34,309m and lease liabilities of ¥35,625m were recognized as of the beginning of the fiscal year, having increased total assets a lot.

## 4.0 Business Model

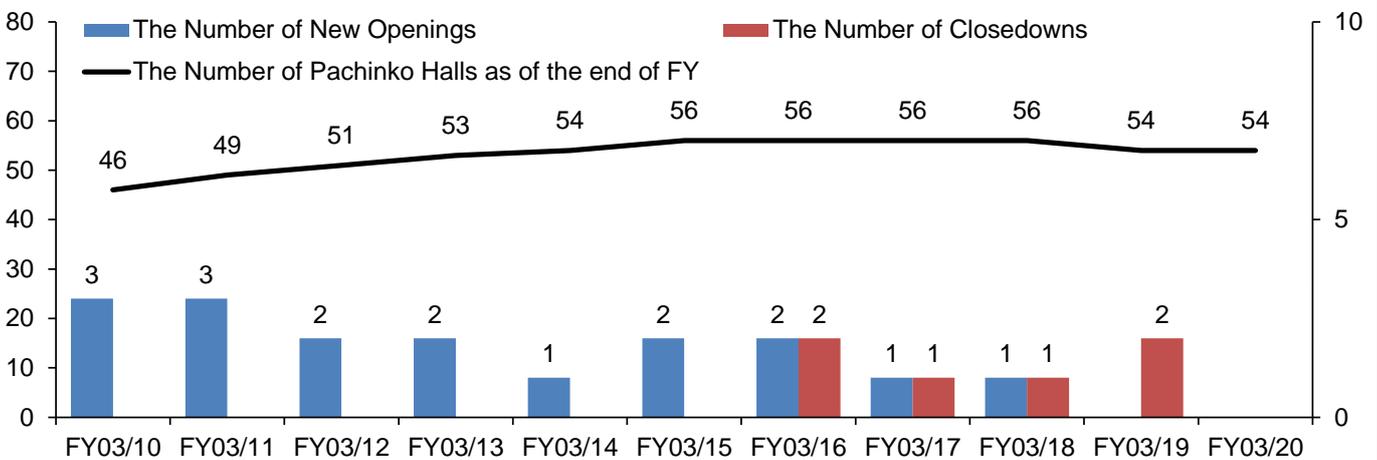
### Running Pachinko Halls

The Company is a holding company, holding all the shares of NIRAKU CORPORATION, NGCH Hong Kong Limited and Dream Games Singapore Pte. Ltd. (Dream Games Company) to run them as own consolidated subsidiaries under management. The performance of the Company as a whole at the moment exclusively hinges on that of NIRAKU CORPORATION to run pachinko halls in the eastern Japan region, primarily in Fukushima-prefecture.

**The Number of Pachinko Halls in Utilization by Prefecture: Collectively 53 (as of the end of FY03/2020)**



**The Number of Pachinko Halls**

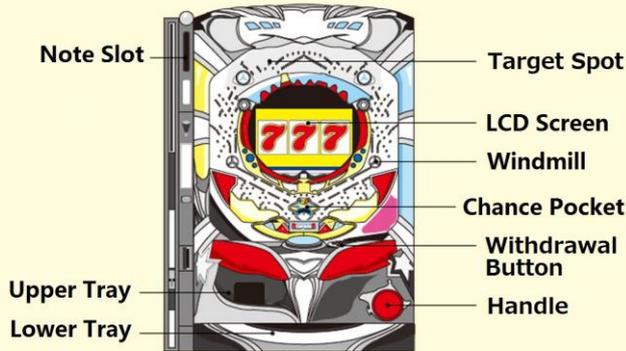


Source: Company Data

As of the end of March 2020, the number of pachinko halls run by NIRAKU CORPORATION stood at collective 53, comprising 21 in Fukushima-prefecture (10 in Koriyama-city), 9 in Tokyo and 23 in other prefectures in the eastern Japan region. On top of this, there exists NIRAKU Tomioka Hall (Futaba-District, Fukushima-prefecture), but the operations here have been suspended since 11 March 2011 due to the impacts of Great East Japan earthquake and time for resuming operations has not been decided. Thus, the number of pachinko halls stood at collective 54, when this hall was included.

## Pachinko Machine

### Basic components of Pachinko Machine



\*Each component may differ by the model

## Installation of Pachinko Machines



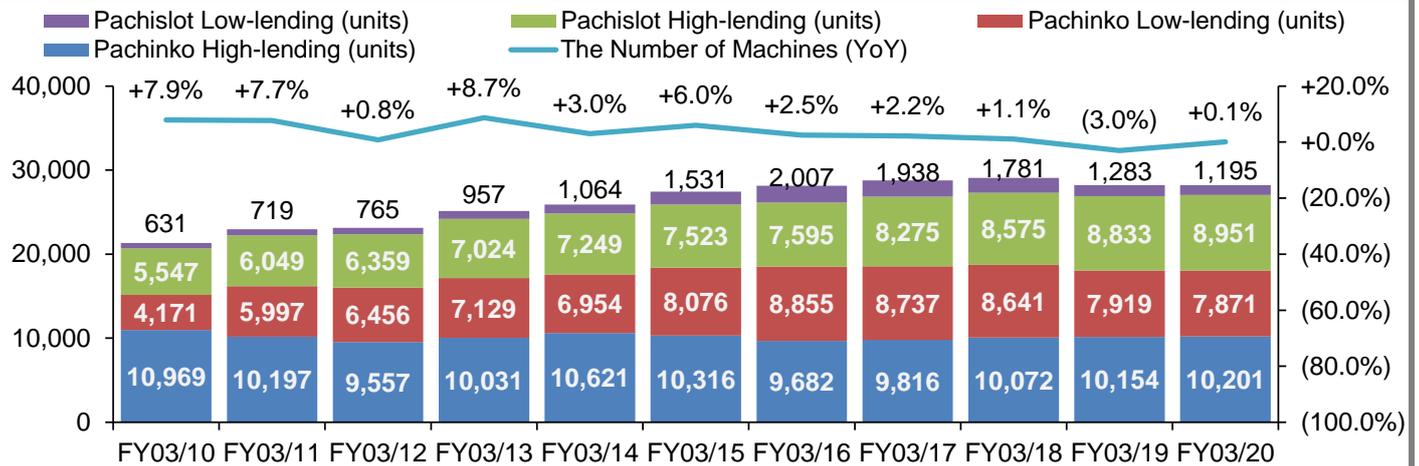
## Inside of Pachinko Hall



## Premiums Corner



## The Number of Pachinko and Pachislot Machines Installed



Source: Company Data

Meanwhile, although the number of pachinko and pachislot machines installed as a whole for the Company had been on the rise consistently by FY03/2018, the number declined in FY03/2019, i.e., 28,189 units (down 3.0% YoY) as of the end of the fiscal year as a result of closedowns of two halls and no new openings during the period. For FY03/2020, the number has remained effectively unchanged, i.e., 28,218 units (up 0.1% YoY) as of the end of the fiscal year as a result of no closedowns and no new openings during the period.

**LIZARRN-brand Spanish Restaurant**



**Takadanobaba**



**Shinbashi**



**Sangenjaya**

**Koriyama City Hotel**

**KOMEDA's Coffee Shop**



**NIRAKU Kazo-Atago Hall**



**NIRAKU Iruma-Shinko Hall**

Source: Company Data

On top of above-mentioned operations of running pachinko halls, NIRAKU CORPORATION is involved with operations to run LIZARRN-brand Spanish restaurant as a franchisee in the Tokyo metropolitan area (Shinbashi, Takadanobaba and Sangenjaya). Meanwhile, the operations to run KOMEDA's Coffee Shop started up in FY03/2019 with a new opening of the first one on the premises of its proprietary pachinko hall, NIRAKU Kazo-Atago Hall (Kazo-city, Saitama-prefecture) in June 2018, which was followed by the second on the premises of NIRAKU Iruma-Shinko Hall (Iruma-city, Saitama-prefecture). Further, there is also an involvement with operations to run Koriyama City Hotel in Koriyama-city, Fukushima-prefecture.

NGCH Hong Kong Limited holds a 51% stake in NPJ Hong Kong Limited as well as a 40% stake in Yes! E-Sports Asia Holdings Limited at the same time. The former is a bridgehead for business developments in ex-Japan Asia, while the latter is trying to propel e-sports business across Asia by means of providing a cross-regional e-sports platform. At the same time, NPJ Hong Kong Limited holds a 100% stake in NPJ China YOKOCHO Co., Ltd., which has been responsible for the operations to run Japanese dish food court with a concept of YOKOCHO in Shenzhen Upper Hills or urban-type shopping complex based in Shenzhen, China.

Dream Games Company (Singapore) mainly operates amusement arcades (medal games, etc.) in Vietnam and Cambodia through its 100% local subsidiaries based in Vietnam and Cambodia

## 5.0 Financial Statements

### Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income (Million Yen)	Cons.Act FY 03/2016	Cons.Act FY 03/2017	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	YoY Net Chg.
<b>Revenue</b>	<b>30,995</b>	<b>29,180</b>	<b>26,554</b>	<b>28,325</b>	<b>28,046</b>	<b>(279)</b>
Other income	770	801	606	551	1,074	+523
Other net gains / losses	(272)	(47)	121	54	400	+346
Hall operating expenses	25,207	24,110	22,640	22,875	21,910	(965)
Administrative and other operating expenses	4,815	4,391	3,918	4,502	5,655	+1,153
<b>Operating profit</b>	<b>1,471</b>	<b>1,433</b>	<b>723</b>	<b>1,553</b>	<b>1,955</b>	<b>+402</b>
Net finance costs	838	531	510	455	1,374	+919
Share of results of an associate	-	-	-	(5)	-	+5
<b>Profit before income tax</b>	<b>633</b>	<b>902</b>	<b>213</b>	<b>1,093</b>	<b>581</b>	<b>(512)</b>
Income tax expense	452	410	273	549	717	+168
<b>Profit for the year</b>	<b>181</b>	<b>492</b>	<b>(60)</b>	<b>544</b>	<b>(136)</b>	<b>(680)</b>
Profit attributable to owners of the Company	181	492	(15)	610	179	(431)
Profit attributable to non-controlling interest	-	-	(45)	(66)	(315)	(249)
Other net comprehensive income	(241)	138	(272)	70	(286)	(356)
<b>Total comprehensive net income for the year</b>	<b>(60)</b>	<b>630</b>	<b>(332)</b>	<b>614</b>	<b>(422)</b>	<b>(1,036)</b>
Revenue YoY	(5.8%)	(5.9%)	(9.0%)	+6.7%	(1.0%)	-
Operating profit YoY	(73.8%)	(2.6%)	(49.5%)	+114.8%	+25.9%	-
Profit before income tax YoY	(87.3%)	+42.5%	(76.4%)	+413.1%	(46.8%)	-
Profit attributable to owners of the Company YoY	(94.0%)	+171.8%	-	-	(70.7%)	-
Hall operating expenses / Revenue	81.3%	82.6%	85.3%	80.8%	78.1%	(2.6%)
Administrative and other operating expenses / Revenue	15.5%	15.0%	14.8%	15.9%	20.2%	+4.3%
Operating profit margin	4.7%	4.9%	2.7%	5.5%	7.0%	+1.5%
Profit before income tax margin	2.0%	3.1%	0.8%	3.9%	2.1%	(1.8%)
Profit for the year margin	0.6%	1.7%	(0.2%)	1.9%	(0.5%)	(2.4%)
Profit before income tax / Income tax expense	71.4%	45.5%	128.2%	50.2%	123.4%	+73.2%

Source: Company Data, WRJ Calculation

## Segmented Information

Segmented Information	Cons.Act FY	Cons.Act FY	Cons.Act FY	Cons.Act FY	Cons.Act FY	YoY Net Chg.
(Million Yen)	03/2016	03/2017	03/2018	03/2019	03/2020	
Pachinko and pachislot hall operations	30,783	28,960	25,799	26,388	25,487	(901)
Amusement arcade operations	-	-	417	1,535	1,663	+128
Restaurant operations	-	-	-	-	304	+304
Other	212	220	338	402	592	+190
<b>Revenue</b>	<b>30,995</b>	<b>29,180</b>	<b>26,554</b>	<b>28,325</b>	<b>28,046</b>	<b>(279)</b>
Pachinko and pachislot hall operations	(5.9%)	(5.9%)	(10.9%)	+2.3%	(3.4%)	-
Amusement arcade operations	-	-	-	+268.1%	+8.3%	-
Restaurant operations	-	-	-	-	-	-
Other	+21.1%	+3.8%	+53.6%	+18.9%	+47.3%	-
<b>Revenue (YoY)</b>	<b>(5.8%)</b>	<b>(5.9%)</b>	<b>(9.0%)</b>	<b>+6.7%</b>	<b>(1.0%)</b>	<b>-</b>
Pachinko and pachislot hall operations	99.3%	99.2%	97.2%	93.2%	90.9%	-
Amusement arcade operations	-	-	1.6%	5.4%	5.9%	-
Restaurant operations	-	-	-	-	1.1%	-
Other	0.7%	0.8%	1.3%	1.4%	2.1%	-
<b>Revenue (composition ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>
Pachinko and pachislot hall operations	1,703	1,576	1,223	2,314	2,438	+124
Amusement arcade operations	-	-	(74)	153	56	(97)
Restaurant operations	-	-	-	(92)	(597)	(505)
Other	(121)	(118)	(213)	(145)	(493)	(348)
<b>Segment profit</b>	<b>1,582</b>	<b>1,458</b>	<b>936</b>	<b>2,230</b>	<b>1,404</b>	<b>(826)</b>
Pachinko and pachislot hall operations	107.6%	108.1%	130.7%	103.8%	173.6%	-
Amusement arcade operations	-	-	(7.9%)	6.9%	4.0%	-
Restaurant operations	-	-	-	(4.1%)	(42.5%)	-
Other	(7.6%)	(8.1%)	(22.8%)	(6.5%)	(35.1%)	-
<b>Segment profit (composition ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>
Pachinko and pachislot hall operations	5.5%	5.4%	4.7%	8.8%	9.6%	+0.8%
Amusement arcade operations	-	-	(17.7%)	10.0%	3.4%	(6.6%)
Restaurant operations	-	-	-	-	(196.4%)	-
Other	(57.1%)	(53.6%)	(63.0%)	(36.1%)	(83.3%)	(47.2%)
<b>Segment profit margin</b>	<b>5.1%</b>	<b>5.0%</b>	<b>3.5%</b>	<b>7.9%</b>	<b>5.0%</b>	<b>(2.9%)</b>

Source: Company Data, WRJ Calculation

## Revenue

Revenue	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	FY	FY	FY	FY	FY	Net Chg.
	03/2016	03/2017	03/2018	03/2019	03/2020	
Gross pay-ins	158,095	143,130	138,493	141,731	139,053	(2,678)
Less: gross pay-outs	127,900	114,734	113,230	115,850	114,046	(1,804)
Revenue from pachinko and pachislot hall business	30,195	28,396	25,263	25,881	25,007	(874)
Revenue from amusement arcades business	-	-	417	1,535	1,663	+128
Vending machine income	588	564	536	507	480	(27)
Revenue from hotel operations	164	130	158	132	143	+11
Revenue from restaurant operations	48	90	180	270	753	+483
<b>Revenue</b>	<b>30,995</b>	<b>29,180</b>	<b>26,554</b>	<b>28,325</b>	<b>28,046</b>	<b>(279)</b>
Gross pay-ins	(10.0%)	(9.5%)	(3.2%)	+2.3%	(1.9%)	-
Less: gross pay-outs	(10.9%)	(10.3%)	(1.3%)	+2.3%	(1.6%)	-
Revenue from pachinko and pachislot hall business	(6.0%)	(6.0%)	(11.0%)	+2.4%	(3.4%)	-
Revenue from amusement arcades business	-	-	-	+268.1%	+8.3%	-
Vending machine income	(0.7%)	(4.1%)	(5.0%)	(5.4%)	(5.3%)	-
Revenue from hotel operations	+6.5%	(20.7%)	+21.5%	(16.5%)	+8.3%	-
Revenue from restaurant operations	+128.6%	+87.5%	+100.0%	+50.0%	+178.9%	-
<b>Revenue (YoY)</b>	<b>(5.8%)</b>	<b>(5.9%)</b>	<b>(9.0%)</b>	<b>+6.7%</b>	<b>(1.0%)</b>	<b>-</b>
Revenue from pachinko and pachislot hall business	97.4%	97.3%	95.1%	91.4%	89.2%	-
Revenue from amusement arcades business	0.0%	0.0%	1.6%	5.4%	5.9%	-
Vending machine income	1.9%	1.9%	2.0%	1.8%	1.7%	-
Revenue from hotel operations	0.5%	0.4%	0.6%	0.5%	0.5%	-
Revenue from restaurant operations	0.2%	0.3%	0.7%	1.0%	2.7%	-
<b>Revenue (Compsition ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>

Source: Company Data, WRJ Calculation

## Consolidated Statement of Financial Position

Consolidated Statement of Financial Position (Million Yen)	Cons.Act FY 03/2016	Cons.Act FY 03/2017	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	YoY Net Chg.
Property, plant and equipment	28,470	26,406	26,207	28,523	22,257	(6,266)
Right-of-use assets	-	-	-	-	32,072	+32,072
Investment properties	697	678	662	650	630	(20)
Intangible assets	210	182	1,571	1,662	1,601	(61)
Prepayments, deposits and other receivables	4,198	3,866	3,751	4,208	5,119	+911
Financial assets at fair value through profit or loss	106	104	52	100	-	(100)
FAs at fair value through other comprehensive income	1,013	1,210	953	911	565	(346)
Deferred income tax assets	1,781	1,656	1,565	1,588	2,822	+1,234
Long-term bank deposits	185	35	47	-	-	-
<b>Non-current assets</b>	<b>36,660</b>	<b>34,137</b>	<b>34,808</b>	<b>37,642</b>	<b>65,066</b>	<b>+27,424</b>
Inventories	413	20	57	109	40	(69)
Trade receivables	64	88	57	53	48	(5)
Prepayments, deposits and other receivables	1,456	1,457	1,312	1,020	1,026	+6
Current income tax recoverable	957	55	300	-	-	-
Financial assets at fair value through profit or loss	100	-	-	-	100	+100
Bank deposits with maturity over 3 months	297	252	43	43	750	+707
Cash and cash equivalents	12,310	13,404	15,594	15,176	14,128	(1,048)
<b>Current assets</b>	<b>15,597</b>	<b>15,276</b>	<b>17,363</b>	<b>16,401</b>	<b>16,092</b>	<b>(309)</b>
<b>Total assets</b>	<b>52,257</b>	<b>49,413</b>	<b>52,171</b>	<b>54,043</b>	<b>81,158</b>	<b>+27,115</b>
Share capital	3,000	3,000	3,000	3,000	3,000	-
Reserves	24,097	24,499	24,176	24,617	23,220	(1,397)
Non-controlling interest	-	-	(40)	(106)	(421)	(315)
<b>Total equity</b>	<b>27,097</b>	<b>27,499</b>	<b>27,136</b>	<b>27,511</b>	<b>25,799</b>	<b>(1,712)</b>
Borrowings	9,732	8,656	10,854	11,792	9,853	(1,939)
Lease liabilities	5,070	4,048	3,247	2,717	32,035	+29,318
Provisions and other payables	2,057	1,989	2,111	2,226	2,270	+44
Derivative financial instruments	14	11	8	27	22	(5)
<b>Non-current liabilities</b>	<b>16,873</b>	<b>14,704</b>	<b>16,220</b>	<b>16,762</b>	<b>44,180</b>	<b>+27,418</b>
Trade payables	132	123	247	294	114	(180)
Borrowings	3,295	2,394	3,886	4,290	3,233	(1,057)
Lease liabilities	1,530	1,160	888	703	2,542	+1,839
Accruals, provisions and other payables	3,326	3,532	3,793	4,353	4,404	+51
Derivative financial instruments	2	1	1	4	4	-
Current income tax liabilities	2	-	-	126	882	+756
<b>Current liabilities</b>	<b>8,287</b>	<b>7,210</b>	<b>8,815</b>	<b>9,770</b>	<b>11,179</b>	<b>+1,409</b>
<b>Total liabilities</b>	<b>25,160</b>	<b>21,914</b>	<b>25,035</b>	<b>26,532</b>	<b>55,359</b>	<b>+28,827</b>
<b>Total equity and liabilities</b>	<b>52,257</b>	<b>49,413</b>	<b>52,171</b>	<b>54,043</b>	<b>81,158</b>	<b>+27,115</b>
Interest bearing debt	19,627	16,258	18,875	19,502	47,663	+28,161
Net debt	7,020	2,602	3,238	4,283	32,785	+28,502
Equity ratio	51.9%	55.7%	52.0%	50.9%	31.8%	-
Net debt equity ratio	25.9%	9.5%	11.9%	15.6%	127.1%	-
ROE (12 months)	0.7%	1.8%	(0.1%)	2.2%	0.7%	-
ROA (12 months)	1.2%	1.8%	0.4%	2.1%	0.9%	-
Quick ratio	153%	191%	178%	156%	134%	-
Current ratio	188%	212%	197%	168%	144%	-

Source: Company Data, WRJ Calculation

### Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows (Million Yen)	Cons.Act FY 03/2016	Cons.Act FY 03/2017	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	YoY Net Chg.
Cash flows from operating activities (A)	2,158	5,320	2,950	4,565	5,470	+905
Cash flows from investing activities (B)	(122)	(273)	(2,698)	(4,986)	(165)	+4,821
<b>Free cash flows (A)+(B)</b>	<b>2,036</b>	<b>5,047</b>	<b>252</b>	<b>(421)</b>	<b>5,305</b>	<b>+5,726</b>
Cash flows from financing activities	794	(3,953)	1,942	6	(6,342)	(6,348)

Source: Company Data, WRJ Calculation

### Per Share Data

Per Share Data (Before Adjustments for Split) (Yen)	Cons.Act FY 03/2016	Cons.Act FY 03/2017	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	YoY Net Chg.
No. of shares FY end (million shares)	1,196	1,196	1,196	1,196	1,196	-
Earnings per share	0.150	0.411	(0.013)	0.510	0.150	-
Dividend per share	0.10	0.12	0.12	0.15	0.10	-
Payout ratio	66.7%	29.2%	-	29.4%	66.7%	-
Per Share Data (After Adjustments for Split) (Yen)	Cons.Act FY 03/2016	Cons.Act FY 03/2017	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	YoY Net Chg.
Share split factor	1	1	1	1	1	-
Earnings per share	0.150	0.411	(0.013)	0.510	0.150	-
Dividend per share	0.10	0.12	0.12	0.15	0.10	-

Source: Company Data, WRJ Calculation

## 6.0 Other Information

### **Making Life Happy, Enjoyable and Fun**

The Company's history started with the setup of a pachinko hall in Mito-city, Ibaraki-prefecture by Tetsuyoshi Taniguchi, the founder, in 1950. In some 70 years since then, the Company had the number of pachinko halls operated under management as many as 53 in the eastern Japan region as of the end of FY03/2020. Meanwhile, according to Hisanori Taniguchi, current Chairman of the Board with the Company, having succeeded management from Tetsuyoshi Taniguchi, the founder, after a period of management by Masataka Taniguchi in-between, the Company is spicy with its main characteristics, i.e., it has established own strategic dominance in Fukushima-prefecture (Koriyama-city), while being able to quickly implement diverse measures as the organization not bloated up.

In 1954, the Company newly opened NIRAKU Hall in Koriyama-city, Fukushima-prefecture, where the Company is currently based, which was followed by growth of the Company driven by booming pachinko market and by economic prosperity after the Second World War. Since the early days, the Company has been standing by its corporate slogan of "Making Life Happy, Enjoyable and Fun" to date, while having consistently strived to ensure a joyful experience and kindness for customers. This customers first principle made it possible to well cope with ever-changing trends of pachinko market and customer preferences, having established the current pachinko hall chain. The Company will remain placing the utmost emphasis on the customers first principal, trying to beef up own corporate value as an entity to create happiness amongst people.

Meanwhile, NIRAKU GC HOLDINGS, INC. was established on 10 January 2013, which was followed by consolidation of NIRAKU CORPORATION to have been running above-mentioned pachinko hall chain as subsidiary under management in April of the same year. Then, on 8 April 2015, NIRAKU GC HOLDINGS, INC. got listed on the mainboard of Hong Kong Stock Exchange, while having started up operations in ex-Japan Asia by means of consolidation of Dream Games Company (Singapore) on 20 November 2017 with procurement of 100% of the shares outstanding.

## Company History

Date	Events
1954	Opened NIRAKU Hall ( Koriyama-city, Fukushima-prefecture)
August 1969	Established NIRAKU SHOJI CORPORATION (Nakano-ku, Tokyo)
July 1979	Renovated NIRAKU Hall and identified as DAIWA, opened Koriyama City Hotel
1980s	Opened four pachinko halls in Fukushima-prefecture (three in Koriyama-city)
1990 to 1997	Opened 10 pachinko halls
December 1991	Opened Nikku Club (changed to training facilities in 2000)
August 1992	Opened the 10th pachinko hall (Nakano-Shinbashi Hall)
August 1998	Identified as NIRAKU CORPORATION versus NIRAKU SHOJI CORPORATION by then
2001	Opened 5 pachinko halls
2002	Own pachinko halls, identified as NIRAKU versus DAIWA by then
2002 to 2005	Opened 15 pachinko halls
February 2003	Opened the 20th pachinko hall (Soma Hall)
2006 to 2010	Opened 16 pachinko halls in Tokyo, Fukushima-prefecture and their neighboring prefectures
February 2010	Established Special Subsidiary Company NIRAKU MERRIST CORPORATION
November 2010	Opened the 20th pachinko hall in Fukushima-prefecture (Sasakino Hall)
May 2011	Opened the 50th pachinko hall (Koriyama-Arai Hall in Fukushima-prefecture)
January 2013	Established NIRAKU GC HOLDINGS, INC.
April 2013	NIRAKU GC HOLDINGS, INC., having become holding company for NIRAKU CORPORATION
October 2014	Opened the first Spanish restaurant in Tokyo under LIZARRAN-brand
April 2015	Listed on the Mainboard of Hong Kong Stock Exchange
November 2017	Consolidated Dream Games Singapore Pte. Ltd. as subsidiary
June 2018	Opened the first KOMEDA's Coffee Shop on the premises of Kazo-Atago Hall
November 2018	Entered e-sports business in Asia
January 2019	Opened the second KOEDA's Coffee Shop on the premises of Iruma-Shinko Hall
March 2019	Opened LIZARRAN-brand Spanish restaurant in Takadanobaba
October 2019	Opened LIZARRAN-brand Spanish restaurant in Sangenjaya
June 2020	One pachinko hall, closed down (BIZYUTSUKAN-DORI Hall)
August 2020	One pachinko hall, newly opened (Koriyama-Ohmachi Hall)
October 2020	Four pachinko halls, closed down (Bansei Hall, Koriyama-Ekimae Hall, Nakano Hall and Ota-Zoushiki Hall)

**Disclaimer**

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Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage, etc.

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