

NIRAKU GC HOLDINGS

(Hong Kong Stock Exchange : 1245)

Consolidated Fiscal Year (Million Yen)		Revenue	Operating profit	Profit before income tax	Profit attributable to shareholders	EPS (Yen)	DPS (Yen)
FY03/2015		32,886	5,610	4,994	3,030	3.38	0.76
FY03/2016		30,995	1,471	633	181	0.15	0.10
FY03/2017		29,180	1,433	902	492	0.41	0.12
FY03/2016	YoY	(5.8%)	(73.8%)	(87.3%)	(94.0%)	-	-
FY03/2017	YoY	(5.9%)	(2.6%)	42.5%	171.8%	-	-

Consolidated Half Year (Million Yen)		Revenue	Operating profit	Profit before income tax	Profit attributable to shareholders	EPS (Yen)	DPS (Yen)
H1 FY03/2017		14,847	872	576	363	0.30	0.09
H2 FY03/2017		14,333	561	326	129	-	0.03
H1 FY03/2018		13,108	128	(104)	(221)	(0.18)	0.00
H1 FY03/2018	YoY	(11.7%)	(85.3%)	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (16 February 2018)

Pursuing Synergy

NIRAKU GC HOLDINGS, running 55 pachinko halls in East Japan with a particular focus on Fukushima-prefecture, has a long-term growth strategy that focuses on merger and acquisition. Although operations of existing pachinko halls are becoming increasingly difficult due to ongoing strengthening of regulations, the Company continues creating free cash flows, while investing in new business with funds obtained so far. The first of such investments was made in Southeast Asia on 20 November 2017, having acquired all the shares (some ¥1,870m) of Dream Games Singapore Pte. Ltd. which operates Japanese-style amusement facilities. Now a consolidated subsidiary, Dream Games Company operates collective 7 amusement facilities, 6 in Vietnam and one in Cambodia. Through all those operations, Dream Games Company has acquired knowhow of running amusement facilities, which is expected to be combined with the Company's knowhow to run pachinko halls in order to expand Dream Games Company's business in Southeast Asia. The Company also hopes to continue merger and acquisition in order to further pursue synergy, while also considering capital/business alliance with other pachinko hall operators at the same time.


In H1 FY03/2018, revenue came in at ¥13,108m (down 11.7% YoY), operating profit ¥128m (down 85.3%) and operating profit margin 1.0% (down 4.9% points). Given increasingly stricter regulations by the authorities (the National Police Agency, the regulatory agency), the Company suffered from slowing traffic of customers and thus slowing gross pay-ins, having resulted in slowing revenue as a whole for the Company. Meanwhile, hall operating expenses came in at ¥11,478m (down 4.4%) and administrative and other operating expenses ¥1,824m (down 20.0%), both having also come down, but the Company suffered from a major adjustment of operating profit given fall of revenue more substantial. In the first place, the Company did attempt to break through trends of lowering gross pay-ins in the pachinko hall market by letting customers play longer at the same prices to attract them more, while making all sorts of corporate efforts to increase the number of customers at each hall at the same time, but it was more impactful, eventually, that the Company was forced to make a changeover to low gambling machines from high gambling machines in line with instructions by the authorities. As a result, gross pay-ins came in at ¥70,236m (down 5.2%). As in trends of the pachinko hall market, the Company's gross pay-ins have had come down consistently over the past four years through FY03/2014 to FY03/2017. For example, gross pay-ins came in at ¥158,095m (down 10.0% YoY) in FY03/2016 and ¥143,130m (down 9.5%) in FY03/2017, while recent trading does not suggest a recovery as mentioned above.

Moreover, the Company suggests further adjustments of gross pay-ins unavoidable going forward. This is due to partial revisions on Businesses Affecting Public Morals Regulation Act, having been effective since 1 February 2018. The authorities hope to solve “gamble addiction issues” through the limitation of the number of pachinko balls and/or pachislot medals a customer can win to two-thirds of previous standards. As a result, assuming an average game-length of four hours, the upper limit of the number of pachinko balls a customer can win equates to some ¥50,000. Given that by previous standards this upper limit exceeded ¥100,000, it is implied that the decreases of gambling element brought about by this stricter regulation are quite large. Due to the three-year transitional period being provided, pachinko and pachislot machines already certified by the authorities can be used during the same period. As a result, it can be said that pachinko as “old fashioned and lively mass entertainment” will be fully restored by the 1 February 2021 at the latest. However, this also gives those customers seeking high gambling element further motives to consider different choices. Thus, there is a possibility that this stricter regulation will greatly damage business trends in the pachinko hall market as a whole.

IR Representative: Hirokazu Nishimura, Executive Secretary (nishimura@niraku.co.jp)

2.0 Company Profile

Running Pachinko Hall Chain

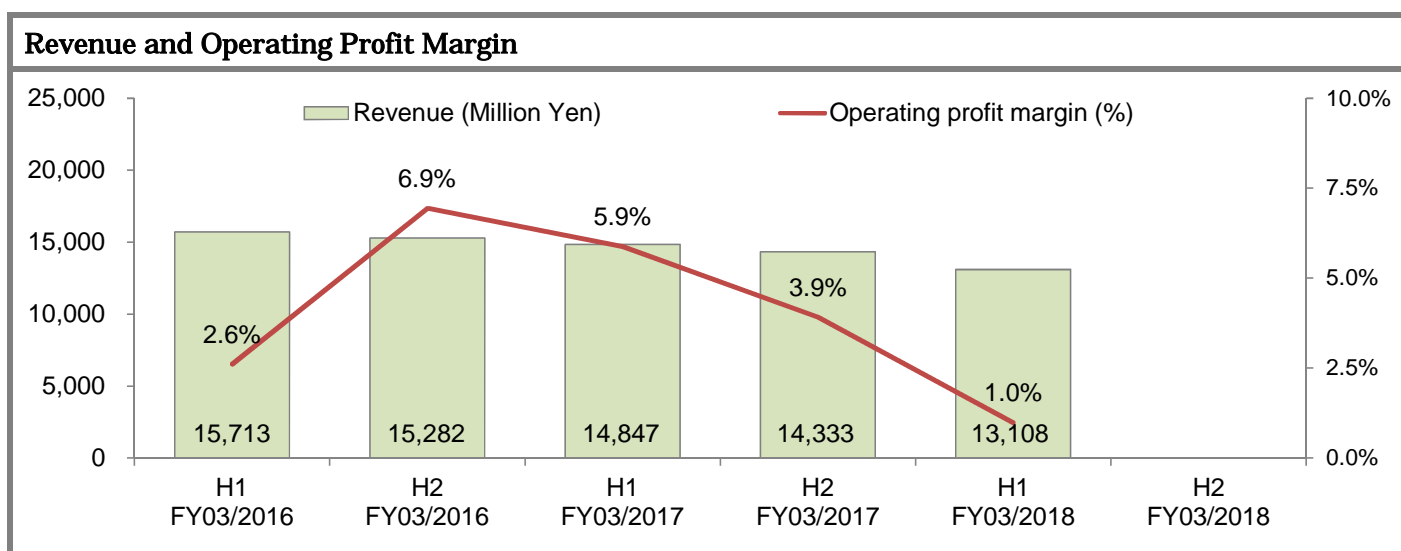
Company Name	NIRAKU GC HOLDINGS, INC. Website IR Information Share Price 
Established	10 January 2013
Listing	8 April 2015: Hong Kong Stock Exchange Mainboard (CODE: 1245)
Capital	¥3,000m (As of the end of September 2017)
No. of Shares	1,195,850,460 shares (As of the end of September 2017)
Main Features	<ul style="list-style-type: none"> ● Running pachinko hall chain, comprising collective 55 halls, through affiliated NIRAKU CORPORATION ● 22 halls in Fukushima-prefecture, 10 in Tokyo and 23 in other areas of East Japan (as of the end of September 2017) ● Looking to long-term growth by means of pursuing synergy with merger and acquisition
Business Segments	<ul style="list-style-type: none"> . Management of Pachinko Halls . Management of Hotel and Restaurants
Top Management	Chairman, Executive Director, Chief Executive Officer: Hisanori Taniguchi
Shareholders	HKSCC NOMINEES LIMITED 30.2%, SMBC Trust and Banking Co., Ltd. 19.2%, Hisanori Taniguchi 17.8%, Tatsuo Taniguchi 13.5% (As of the end of Sep. 2017)
Headquarters	Koriyama-city, Fukushima-prefecture, JAPAN
No. of Employees	1,369: full-time employees of 742 and part-time employees of 627 (As of the end of March 2017)

Source: Company Data

3.0 Recent Trading and Prospects

H1 FY03/2018 Results

In H1 FY03/2018, revenue came in at ¥13,108m (down 11.7% YoY), operating profit ¥128m (down 85.3%), profit before income tax negative ¥104m (versus ¥576m during the same period in the previous year) and profit attributable to shareholders negative ¥221m (¥363m), while operating profit margin 1.0% (down 4.9% points). Meanwhile, dividend was suspended in H1 FY03/2018 versus ¥0.09 per share during the same period in the previous year.



Source: Company Data, WRJ Calculation

Gross pay-ins came in at ¥70,236m (down 5.2%), comprising ¥66,729m (down 5.3%) of suburban halls and ¥3,507m (down 2.1%) of urban halls, while gross pay-outs ¥57,560m (down 3.5%) and thus ¥12,676m (down 12.2%) for revenue from pachinko and pachislot hall business. Given exposure by 96.7% out of the Company as a whole, the Company's business overwhelmingly hinges on revenue from pachinko and pachislot hall business.

Decreasing gross pay-ins are basically attributable to regulations by the authorities becoming increasingly stricter. The Company suffered from slowing traffic of customers, negatively affected by enforcement to make a changeover to low gambling machines from high gambling machines. On top of this, the Company closed down 'Annaka-itahana Hall', a suburban hall based in Gunma-prefecture, in H1, which was also a factor for decreasing gross pay-ins. Meanwhile, decreasing gross pay-outs are basically in line with decreasing gross pay-ins.

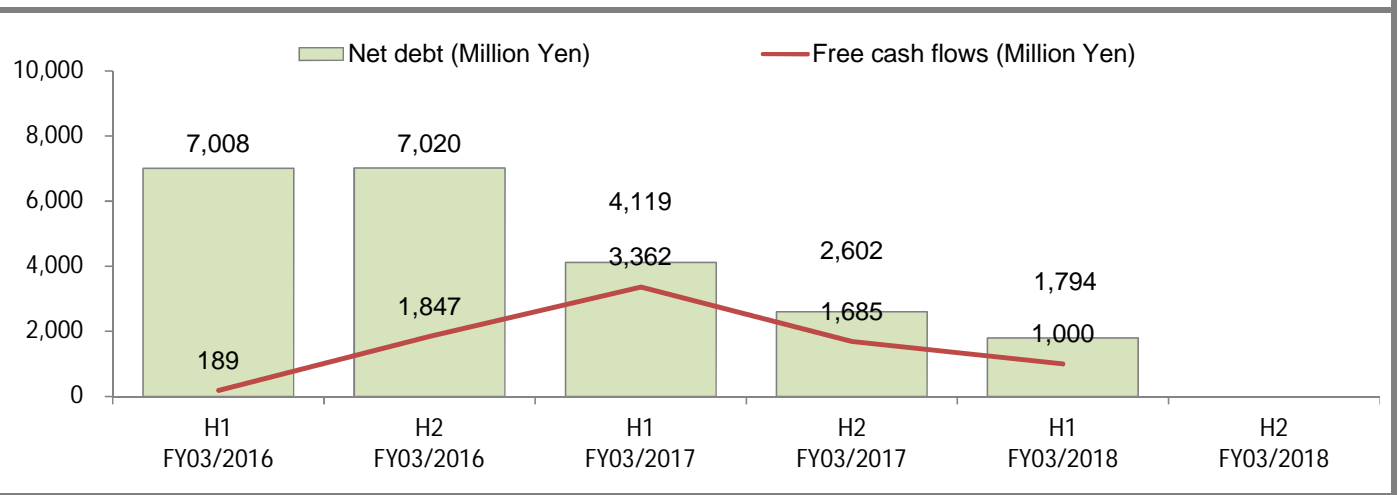
The remaining 3.3% of revenue was accounted for by vending machine income, revenue from hotel operation and revenue from restaurant operations, respectively, ¥272m (down 7.8%), ¥83m (down 1.2%) and ¥77m (up 156.7%). Vending machine income refers to that of beverages etc. through vending machines installed in the Company's pachinko halls and slowing traffic of customers directly led to decreases here. In hotel operation, the Company saw occupancy rate of 77.5%, roughly unchanged from the same period in the previous year, having resulted in the same for revenue. Meanwhile, the Company runs "LIZARRN"-brand Spanish restaurant franchise where it saw surging revenue due to opening of new restaurants of "Nishishinjuku Kotakibashi-dori (Shinjuku-ku of Tokyo)" in September 2016 and of "Shimbashi (Minato-ku of Tokyo)" in August 2017.

On the other hand, hall operating expenses came in at ¥11,478m (down 4.4%), which can be broken down into ¥4,339m (up 2.2%) for pachinko and pachislot machine expenses, ¥2,588m (down 1.0%) for personnel expenses, ¥3,307m (down 5.4%) for rent and ¥3,244m (down 13.7%) for other expenses. Net decreases of hall operating expenses were ¥522m as a whole, while main factors were a) closedowns of halls, b) lowering of rent and c) lowering repair expenses, etc., according to the Company. It was September 2016 that the Company closed down "Maebashi-ohshima Hall", a suburban hall based in Gunma-prefecture, having resulted in almost no expenses associated with this hall all through H1 over the same period in the previous year. At the same time, the Company saw lowering rent in the renewal of tenant contract in regards to some halls. On top of this, a major repair project on pachinko and pachislot machines during the same period in the previous year did not reappear.

In addition to the lowering hall operating expenses, administrative and other operating expenses also came down, i.e., ¥1,824m (down 20.0%). Some half of net decreases of ¥456m over the same period in the previous year relates to corporate efforts to cut back expenses, while another impact came from non- reappearance of ¥197m booked as impairment loss during the same period in the previous year. Said impairment is of above-mentioned "Annaka-itahana Hall" to have been closed down in H1.

Thus, expenses came down, but revenue came down by as much as ¥1,739m, having resulted in net decreases by ¥744m in terms of operating profit to no more than ¥128m. Then, after net finance costs of negative ¥232m (down ¥64m), profit before income tax came in at negative ¥104m (versus ¥576m during the same period in the previous year).

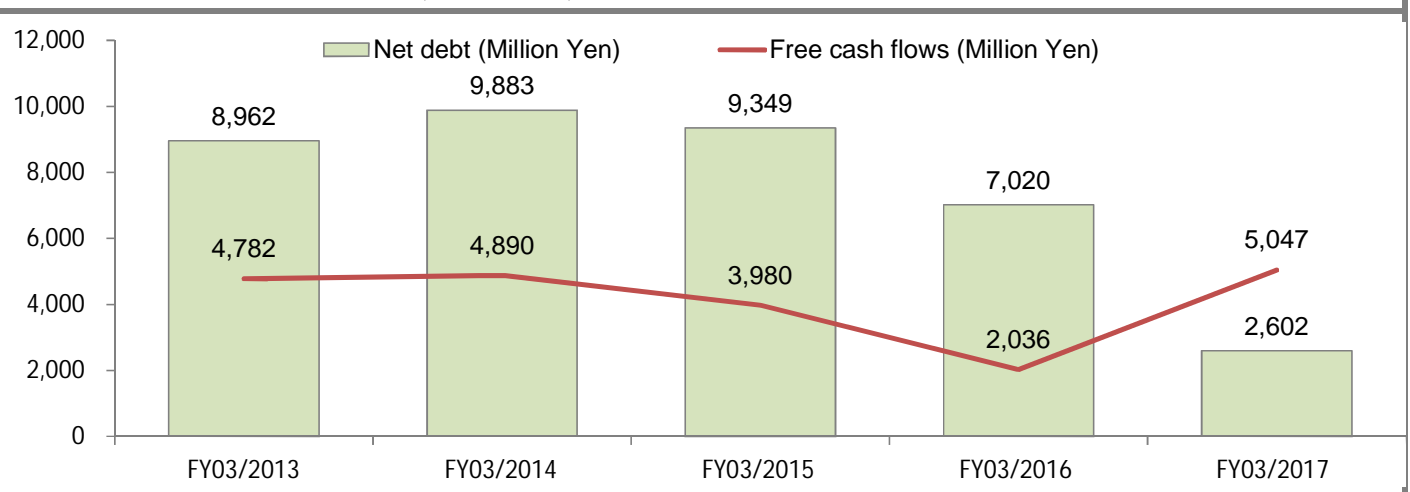
Net Debt and Free Cash Flows (Half Year)



Source: Company Data, WRJ Calculation

As of the end of H1, interest-bearing debt stood at ¥16,178m, down ¥1,531 from ¥17,709m as of the end of H1 FY03/2017, while net debt down ¥2,325m to ¥1,749m from ¥4,119m in the same way. One of the primary reasons for the reduced net debt is thought to be the continued creation of free cash flows. Free cash flows came in at ¥1,000m, having comprised cash flows from operating activities of ¥1,676m and cash flows from investing activities of negative ¥676m.

Net Debt and Free Cash Flows (Fiscal Year)



Source: Company Data, WRJ Calculation

Meanwhile, during the past 5 years, net debt peaked at ¥9,883m as of the end of FY03/2014, which was followed by consistent decreases down to ¥2,602m as of the end of FY03/2017. Here, again, one of the primary reasons is the Company's capability to consistently create free cash flows.

Cumulative free cash flows over the past 5 years equate to ¥20,735m. Ultimately, the main source of this is thought to be gross pay-ins for the Company to obtain, while the Company with knowhow to efficiently run pachinko hall chain has just kept on creating free cash flows despite consistent decreases of gross pay-ins to date. Still, a factor should be considered as another reason that outflows of cash stemming from cash flows from investing activities have been limited. In other words, the Company has had not been so keen on investment in new business, etc.

However, the Company suggested a change on 14 December 2017 by releasing “Interim Report 2017”, where it disclosed as subsequent event that the Company has a plan to aggressively invest in new business, etc. and pursue synergy for long-term growth, presumably because of concerns over further downside for gross pay-ins going forward.

On 31 October 2017, the Company started negotiations to acquire all the shares of Dream Games Singapore Pte. Ltd. (hereinafter mentioned as “Dream Games Company”; head office located in Singapore), while said acquisition was accomplished on 20 November 2017. This deal required the Company to spare some ¥1,870m to acquire all the shares as well as other expenses to make this as a consolidated subsidiary in reality. Still, above-mentioned figures on net debt and free cash flows could suggest a large room for new investment in the future.

Consolidated Statement of Comprehensive Income (Half Year)

Consolidated Statement of Comprehensive Income (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	H1	H2	H1	H2	H1	H2	Net Chg.
	03/2016	03/2016	03/2017	03/2017	03/2018	03/2018	
Revenue	15,713	15,282	14,847	14,333	13,108	-	(1,739)
Other income	512	258	421	380	323	-	(98)
Other losses, net	(200)	(72)	(116)	69	(1)	-	+115
Hall operating expenses	13,261	11,946	12,000	12,110	11,478	-	(522)
Administrative and other operating expenses	2,354	2,461	2,280	2,111	1,824	-	(456)
Operating profit	410	1,061	872	561	128	-	(744)
Finance costs, net	337	501	296	235	232	-	(64)
(Loss)/profit before income tax	73	560	576	326	(104)	-	(680)
Income tax expense	31	421	213	197	117	-	(96)
(Loss)/profit for the period attributable to shareholders of the Company	42	139	363	129	(221)	-	(584)
Other comprehensive gain/(loss)	(261)	20	(37)	175	(88)	-	(51)
Total comprehensive (loss)/income for the period attributable to the shareholders of the Company	(219)	159	326	304	(309)	-	(635)
Revenue YoY	+0.9%	(11.7%)	(5.5%)	(6.2%)	(11.7%)	-	-
Operating profit YoY	(78.4%)	(71.4%)	+112.7%	(47.1%)	(85.3%)	-	-
(Loss)/profit before income tax YoY	(95.5%)	(83.4%)	+689.0%	(41.8%)	-	-	-
(Loss)/profit for the period attributable to shareholders of the Company YoY	(95.5%)	(93.4%)	+764.3%	(7.2%)	-	-	-
(Hall operating expenses / Revenue)	84.4%	78.2%	80.8%	84.5%	87.6%	-	+6.7%
(Administrative and other operating expenses / Revenue)	15.0%	16.1%	15.4%	14.7%	13.9%	-	(1.4%)
Operating profit margin	2.6%	6.9%	5.9%	3.9%	1.0%	-	(4.9%)
(Loss)/profit before income tax margin	0.5%	3.7%	3.9%	2.3%	(0.8%)	-	(4.7%)
(Loss)/profit for the period attributable to shareholders of the Company margin	0.3%	0.9%	2.4%	0.9%	(1.7%)	-	(4.1%)
(Loss)/profit before income tax / Income tax expense	42.5%	75.2%	37.0%	60.4%	-	-	-

Source: Company Data, WRJ Calculation

Gross Pay-ins, Revenue from Pachinko and Pachislot Hall Business (Half Year)

Gross Pay-ins, Revenue from Pachinko and Pachislot Hall Business (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	H1	H2	H1	H2	H1	H2	
	03/2016	03/2016	03/2017	03/2017	03/2018	03/2018	Net Chg.
Suburban halls	75,418	74,908	70,474	65,648	66,729	-	(3,745)
Urban halls	4,800	2,969	3,583	3,425	3,507	-	(76)
Gross pay-ins	80,218	77,877	74,057	69,073	70,236	-	(3,821)
Suburban halls	61,062	60,538	56,817	52,352	54,803	-	(2,014)
Urban halls	3,843	2,457	2,800	2,765	2,757	-	(43)
Gross pay-outs	64,905	62,995	59,617	55,117	57,560	-	(2,057)
Suburban halls	14,356	14,370	13,657	13,296	11,926	-	(1,731)
Urban halls	957	512	783	660	750	-	(33)
Revenue from pachinko and pachislot hall business	15,313	14,882	14,440	13,956	12,676	-	(1,764)
Suburban halls	(10.4%)	(5.4%)	(6.6%)	(12.4%)	(5.3%)	-	-
Urban halls	(29.6%)	(45.2%)	(25.4%)	+15.4%	(2.1%)	-	-
Gross pay-ins (YoY)	(11.8%)	(8.0%)	(7.7%)	(11.3%)	(5.2%)	-	-
Suburban halls	(13.0%)	(4.7%)	(7.0%)	(13.5%)	(3.5%)	-	-
Urban halls	(31.3%)	(40.4%)	(27.1%)	+12.5%	(1.5%)	-	-
Gross pay-outs (YoY)	(14.4%)	(6.9%)	(8.1%)	(12.5%)	(3.5%)	-	-
Suburban halls	+2.8%	(8.1%)	(4.9%)	(7.5%)	(12.7%)	-	-
Urban halls	(21.7%)	(60.3%)	(18.2%)	+28.9%	(4.2%)	-	-
Revenue from pachinko and pachislot hall business (YoY)	+0.8%	(12.1%)	(5.7%)	(6.2%)	(12.2%)	-	-
Suburban halls	94.0%	96.2%	95.2%	95.0%	95.0%	-	-
Urban halls	6.0%	3.8%	4.8%	5.0%	5.0%	-	-
Gross pay-ins (Compsition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
Suburban halls	94.1%	96.1%	95.3%	95.0%	95.2%	-	-
Urban halls	5.9%	3.9%	4.7%	5.0%	4.8%	-	-
Gross pay-outs (Compsition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
Suburban halls	93.8%	96.6%	94.6%	95.3%	94.1%	-	-
Urban halls	6.2%	3.4%	5.4%	4.7%	5.9%	-	-
Revenue from pachinko and pachislot hall business (compsition ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-

Source: Company Data, WRJ Calculation

Revenue (Half Year)

Revenue (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	H1	H2	H1	H2	H1	H2	
	03/2016	03/2016	03/2017	03/2017	03/2018	03/2018	Net Chg.
Gross pay-ins	80,218	77,877	74,057	69,073	70,236	-	(3,821)
Less: gross pay-outs	64,905	62,995	59,617	55,117	57,560	-	(2,057)
Revenue from pachinko and pachislot hall business	15,313	14,882	14,440	13,956	12,676	-	(1,764)
Vending machine income	295	293	295	269	272	-	(23)
Revenue from hotel operation	85	79	82	48	83	-	+1
Revenue from restaurant operations	20	28	30	60	77	-	+47
Revenue	15,713	15,282	14,847	14,333	13,108	-	(1,739)
Gross pay-ins	(11.8%)	(8.0%)	(7.7%)	(11.3%)	(5.2%)	-	-
Less: gross pay-outs	(14.4%)	(6.9%)	(8.1%)	(12.5%)	(3.5%)	-	-
Revenue from pachinko and pachislot hall business	+0.8%	(12.1%)	(5.7%)	(6.2%)	(12.2%)	-	-
Vending machine income	(2.0%)	+0.7%	+0.0%	(8.2%)	(7.8%)	-	-
Revenue from hotel operation	+6.3%	+6.8%	(3.5%)	(39.2%)	+1.2%	-	-
Revenue from restaurant operations	-	+33.3%	+50.0%	+114.3%	+156.7%	-	-
Revenue (YoY)	+0.9%	(11.7%)	(5.5%)	(6.2%)	(11.7%)	-	-
Revenue from pachinko and pachislot hall business	97.5%	97.4%	97.3%	97.4%	96.7%	-	-
Vending machine income	1.9%	1.9%	2.0%	1.9%	2.1%	-	-
Revenue from hotel operation	0.5%	0.5%	0.6%	0.3%	0.6%	-	-
Revenue from restaurant operations	0.1%	0.2%	0.2%	0.4%	0.6%	-	-
Revenue (Compsition ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-

Source: Company Data, WRJ Calculation

Consolidated Statement of Cash Flows (Half Year)

Consolidated Statement of Cash Flows	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	H1	H2	H1	H2	H1	H2	Net Chg.
	03/2016	03/2016	03/2017	03/2017	03/2018	03/2018	
Cash flows from operating activities (A)	817	1,341	3,381	1,939	1,676	-	(1,705)
Cash flows from investing activities (B)	(628)	506	(19)	(254)	(676)	-	(657)
Free cash flows (A)+(B)	189	1,847	3,362	1,685	1,000	-	(2,362)
Cash flows from financing activities	1,079	(285)	(2,241)	(1,712)	(252)	-	+1,989

Source: Company Data, WRJ Calculation

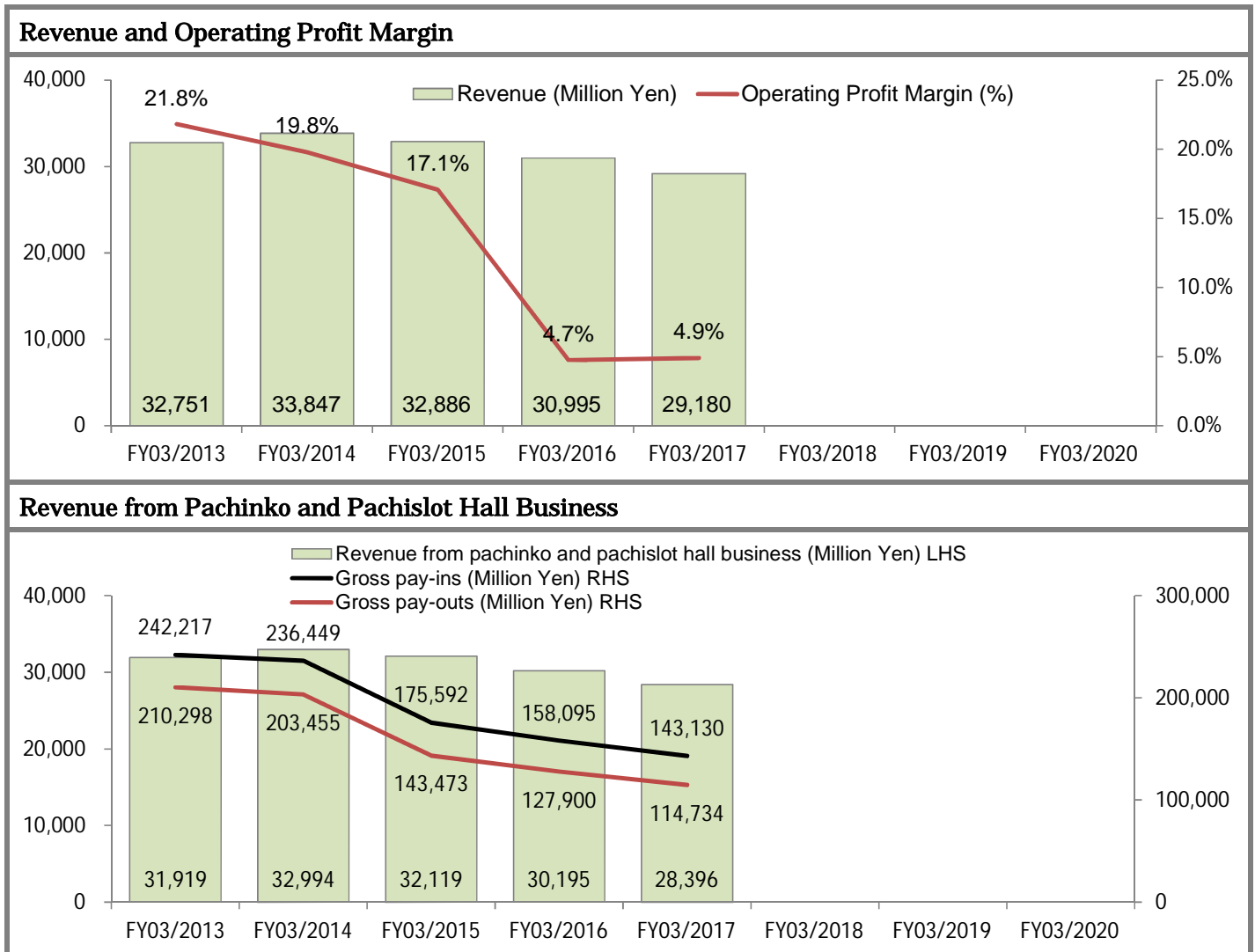
Consolidated Statement of Financial Position (Half Year)

Consolidated Statement of Financial Position	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	H1	H2	H1	H2	H1	H2	Net Chg.
	03/2016	03/2016	03/2017	03/2017	03/2018	03/2018	
Property, plant and equipment	28,329	28,470	27,319	26,406	26,053	-	(1,266)
Investment properties	674	697	687	678	671	-	(16)
Intangible assets	221	210	196	182	166	-	(30)
Prepayments, deposits and other receivables	4,258	4,198	3,999	3,866	3,780	-	(219)
Amounts due from directors and a shareholder	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	100	106	106	104	52	-	(54)
Financial assets at fair value through other comprehensive income	989	1,013	961	1,210	1,084	-	+123
Deferred income tax assets	1,927	1,781	1,751	1,656	1,728	-	(23)
Long-term bank deposits	155	185	215	35	41	-	(174)
Non-current assets	36,653	36,660	35,234	34,137	33,575	-	(1,659)
Inventories	34	413	9	20	15	-	+6
Trade receivables	64	64	72	88	54	-	(18)
Prepayments, deposits and other receivables	1,824	1,456	1,530	1,457	1,220	-	(310)
Current income tax recoverable	201	957	202	55	50	-	(152)
Financial assets at fair value through profit or loss	200	100	-	-	-	-	-
Bank deposits with maturity over 3 months	2,017	297	159	252	232	-	+73
Cash and cash equivalents	10,748	12,310	13,431	13,404	14,152	-	+721
Current assets	15,088	15,597	15,403	15,276	15,723	-	+320
Total assets	51,741	52,257	50,637	49,413	49,298	-	(1,339)
Share capital	3,000	3,000	3,000	3,000	3,000	-	-
Reserves	23,938	24,097	24,303	24,499	24,154	-	(149)
Non-controlling interest	-	-	-	-	5	-	+5
Total equity	26,938	27,097	27,303	27,499	27,159	-	(144)
Borrowings	9,061	9,732	9,079	8,656	8,440	-	(639)
Obligations under finance leases	4,981	5,070	4,565	4,048	3,603	-	(962)
Provisions and other payables	1,674	2,057	2,072	1,989	2,018	-	(54)
Derivative financial instruments	20	14	21	11	10	-	(11)
Non-current liabilities	15,736	16,873	15,737	14,704	14,071	-	(1,666)
Trade payables	134	132	125	123	251	-	+126
Borrowings	4,272	3,295	2,741	2,394	3,096	-	+355
Obligations under finance leases	1,459	1,530	1,324	1,160	1,039	-	(285)
Accruals, provisions and other payables	3,171	3,326	3,262	3,532	3,681	-	+419
Derivative financial instruments	13	2	2	1	1	-	(1)
Current income tax liabilities	18	2	143	-	-	-	(143)
Current liabilities	9,067	8,287	7,597	7,210	8,068	-	+471
Total liabilities	24,803	25,160	23,334	21,914	22,139	-	(1,195)
Total equity and liabilities	51,741	52,257	50,637	49,413	49,298	-	(1,339)
Interest bearing debt	19,773	19,627	17,709	16,258	16,178	-	(1,531)
Net debt	7,008	7,020	4,119	2,602	1,794	-	(2,325)
Equity ratio	52.1%	51.9%	53.9%	55.7%	55.1%	-	-
Net debt equity ratio	26.0%	25.9%	15.1%	9.5%	6.6%	-	-
ROE (12 months)	8.9%	0.7%	1.9%	1.8%	(0.3%)	-	-
ROA (12 months)	6.8%	1.2%	2.2%	1.8%	0.4%	-	-
Quick ratio	141%	153%	180%	191%	179%	-	-
Current ratio	166%	188%	203%	212%	195%	-	-

Source: Company Data, WRJ Calculation

Long-Term Prospects

The Company's prospective business performance hinges on future trends of gross pay-ins and earnings of Dream Games Company as well as on the results of upcoming investment in new business. In regards to gross pay-ins, the Company is to suffer from the limitation of the number of pachinko balls and/or pachislot medals a customer can win to two-thirds of previous standards in line with partial revisions on Businesses Affecting Public Morals Regulation Act, having been effective since 1 February 2018. Immediately after the enforcement, gross pay-ins may come down sharply, according to the Company.



Source: Company Data, WRJ Calculation

“Gross pay-ins” refer to revenue gained through lending pachinko balls and/or pachislot medals to customers, while revenue from pachinko and pachislot being booked, after subtracting gross pay-outs, is effectively the only driver for revenue as a whole for the Company at least now. As mentioned earlier, this revenue accounted for 96.7% out of the Company as a whole in H1 FY03/2018. Meanwhile, the ratio of gross pay-outs against gross pay-ins over the past 5 years ranged between the upper end of 86.8% and lower end of 80.2%, while the ratio came in at 82.0% (up 1.5% points YoY) in H1 FY03/2018.

Most recently, the Company suggests that said ratio remains rather stable, discussing that only gross pay-ins basically determine revenue from pachinko and pachislot hall business in “Interim Report 2017” to have been released on 14 December 2017. Specifically, it goes “generally mirrored the decline in gross pay-ins” in regards to year-on-year decreases of gross pay-outs in H1 FY03/2018.

However, strictly speaking, said ratio in H1 FY03/2018 has risen by 1.5% points over the same period in the previous year. It is reflected here that the Company was trying to eventually get at increases of gross pay-ins and thus revenue from pachinko and pachislot hall business by means of intentionally beefing up gross pay-outs, i.e., returns for customers. Nevertheless, increasingly stricter regulations, having impacted more, led to gross pay-ins of ¥70,236m (down 5.2%) in H1 FY03/2018, as mentioned earlier.

Gross pay-ins are quite important in that they are the crucial factor to determine revenue as a whole for the Company and thus earnings. In the results over the past 5 years through FY03/2013 to FY03/2017, they have been consistently coming down after having had peaked in FY03/2014, while there are no signs of recovery now. More importantly, the Company is currently in a phase to suffer even more from regulations increasingly stricter to have driven the decreases here so far.

In December 2016, “Act on Promotion of Development of Specified Complex Tourist Facilities Areas”, also known as “IR (Integrated Resorts) Promotion Law”, was established passing through the Diet, which is the trigger for the most recent difficulties. Even prior to this, the market for gross pay-ins was on the decreases, including those of the Company, while this played a role to further cut them back in FY03/2017. For example, the Company saw gross pay-ins of ¥143,130m (down 9.5%).

This act requires the government submit act necessary to set up areas of specified complex tourist facilities, i.e., casinos within one year after enforcement, while this has promoted “gamble addiction issues” taken up more seriously than before. The pachinko hall industry has been actively dealing with “gamble addiction issues”, perceiving them as “problems brought forth by excess obsession”. However, with said act passing through the Diet, it has been demanded even more seriously than before to cope with “gamble addiction issues” in regards to all kinds of existing legitimate gambles across the board, including pachinko and pachislot.

Specifically, it has been decided and enacted for exposure to low-gambling machines to gradually enlarge on the expense of high-gambling machines. Characteristics of each suggest that the former generates gross pay-ins smaller than the latter and thus it is taken for granted that gross pay-ins for the market as a whole, including those of the Company, are unavoidably coming down.

Then, the situations have got even worse due to partial revisions on enforcement regulations of Businesses Affecting Public Morals Regulation Act (enforced on 1 February 2018) by the authorities on 24 August 2017. Prior to this, the themes used to relate to reduce exposure to high-gambling machines, while the themes this time relates to reduce gambling element of machines, as far as we could see. In the new standards to have been introduced, it is claimed that the number of pachinko balls to be gained must be less than 1.5x the number of balls to have been lent (and fired in the machines), assuming average play-time of four hours. On top of this, when customers hit the jackpot, they currently get 1,500 balls versus 2,400 before. Thus, the regulations have made progress both horizontally and vertically in a sense in order to provide “gamble addiction issues” with solutions.

Meanwhile, presumably given all those factors, the Company has come up with long-term growth strategy based on merger and acquisition. On 20 November 2017, the first of such investments was made in Southeast Asia having acquired all the shares (some ¥1,870m) of Dream Games Company to make it consolidated. Dream Games Company runs Japanese-style amusement facilities collectively 7 in the number, 6 in Vietnam and one in Cambodia through its overseas subsidiaries and has gained knowhow on management on amusement facilities.

Out of the 7 amusement facilities, the bulk is run within local AEON malls, according to the Company, while each is generally equipped with Japanese-style arcade games and tenpin bowling facilities as well as karaoke facilities sometimes. Now, the Company is trying to expand Dream Games Company’s business in Southeast Asia by means of combining knowhow accumulated here with own knowhow on operations of pachinko hall chain.

Dream Games Company: Business Performance and Financial Status

(Million Yen)	FY12/2015	FY12/2016
Sales	676	1,071
Profit before income tax	124	98
Net profit	98	59
Cash and cash equivalents	76	155
Interest bearing debt	278	389
Net assets	334	376

Source: Company Data, WRJ Calculation

Based on data available in the Company’s release, while assuming ¥115 per U.S. dollar, Dream Games Company saw sales of ¥1,071m (up 58.4% YoY) and profit before income tax of ¥98m (down 20.7%) in FY12/2016. Meanwhile, purchase prices of some ¥1,870m for all the shares of Dream Games Company equate to 5 times net assets of ¥376m as of the end of FY12/2016.

In FY12/2016, Dream Games Company saw surging sales due to new opening of facilities in Ho Chi Minh of Vietnam and to favorable sales in existing facilities. However, given major initial expenses on new opening at the same time, earnings adjusted. Meanwhile, in FY12/2017, the Company suggests a recovery of earnings. New opening of large-scale facilities in Hanoi generates initial expenses, but this is more than compensated for by impacts stemming from having closed down loss-making facilities, according to the Company.

In the first place, Dream Games Company would not affect earnings of the Company in FY03/2018 very much. On the other hand, in FY03/2019, the Company will have full-year (FY12/2018) impacts from Dream Games Company for the first time, benefiting from earnings on a full-fledged basis stemming from consolidation this time. The Company suggests net add-ons of ¥1,460m in revenue and of ¥100m in profit before income tax by this consolidation in FY03/2019, while assuming new opening of 5 new facilities in FY12/2018 for Dream Games Company.

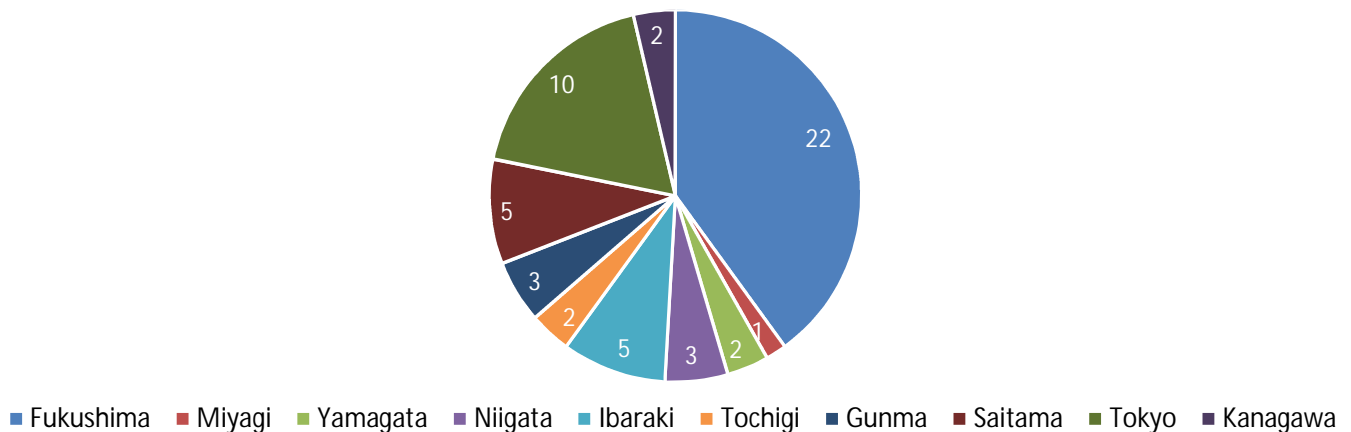
4.0 Business Model

Running Pachinko Hall Chain

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 business performance of the Company as a whole exclusively hinge on that of NIRAKU CORPORATION to run pachinko hall chain with halls located in East Japan primarily in Fukushima-prefecture. However, going forward, Dream Games Company is to bring increasing add-ons as well as potentially more from new investments through merger and acquisition.

As of the end of September 2017, the number of pachinko halls run by NIRAKU CORPORATION stands at 55 in the number collectively, 22 in in Fukushima-prefecture, 10 in Tokyo and 23 in other areas of East Japan. Exposure to Fukushima is substantial even in a respect of the six prefectures of the Tohoku region (Akita, Iwate, Aomori, Fukushima, Miyagi and Yamagata), i.e., just one in Miyagi and one in Yamagata versus 22 in Fukushima. Thus, in other words, Fukushima-dominant strategy is striking.

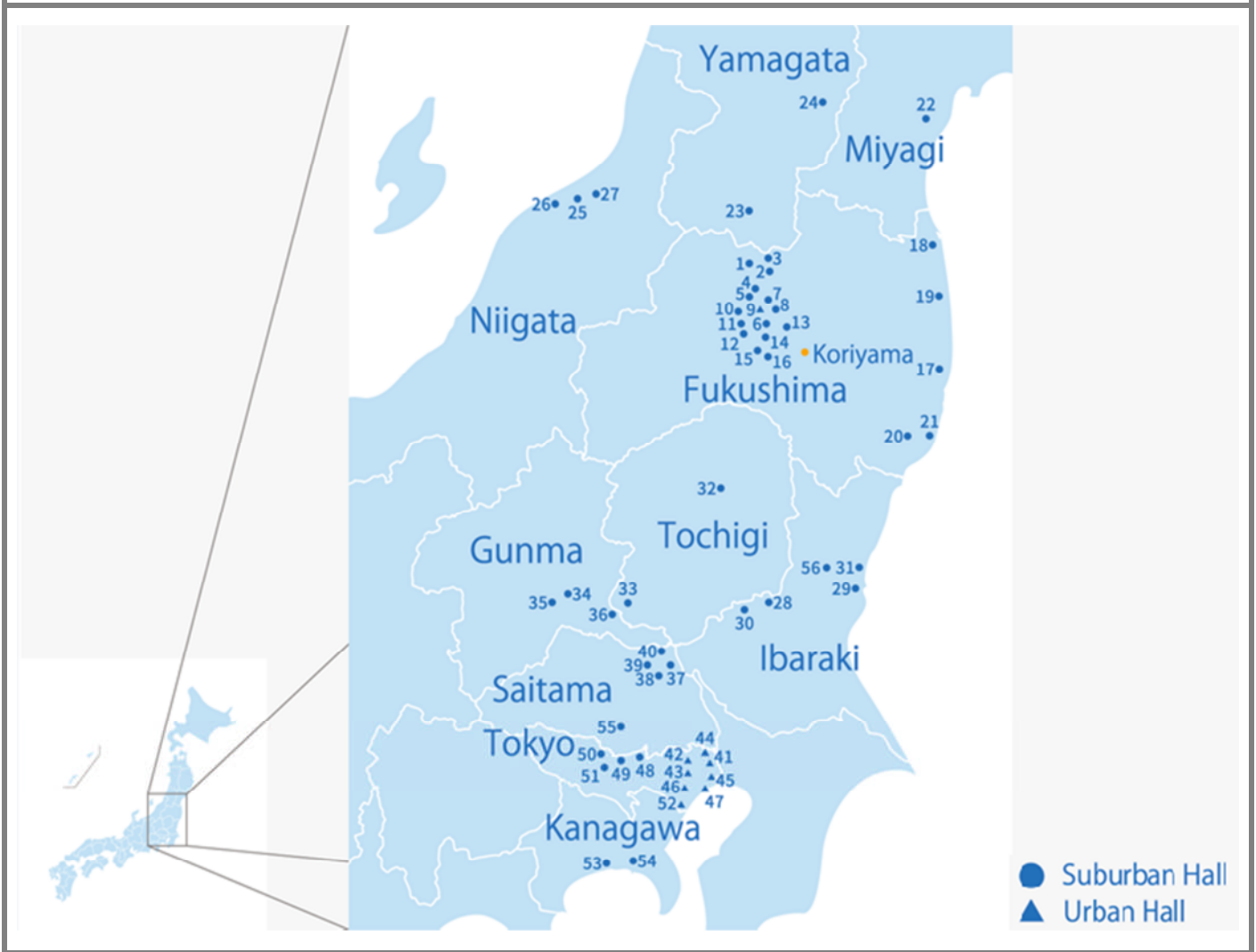
The Number of Pachinko Halls by Prefecture (as of the End of September 2017)



Source: Company Data

According to data provided by the Company, the number of pachinko hall operators is as many as some 4,000 in Japan, while the Company is one of the top 10 operators in terms of gross pay-ins. Still, they collectively account for no more than 2% of the market in terms of gross pay-ins. Thus, the market has remained so fragmented, implying a huge room of consolidation in the future. Meanwhile, all those top 10 operators are not exceptions in that they generally suffer from worsening market conditions and thus from decreasing gross pay-ins. However, there are exceptions, according to the Company, that some operators see increasing gross pay-ins by means of merging and acquiring peers. In case of the Company that is dominantly exposed to Fukushima-prefecture as discussed so far, it could be said that there remains a huge room to increase exposure to prefectures other than Fukushima. Thus, the Company currently considers capital/business tie-up with peers.

Pachinko Hall Locations



Source: Company Data

Meanwhile, over the past 10 years (FY03/2008 to FY03/2017), the Company opened one to three new halls a year, suggesting positive attitude to pursue expansion of business scale by means of newly opening own halls. For example, in April 2016, “Fukushima-taiheiji Hall” was newly opened in Fukushima-city of Fukushima-prefecture where the Company implements dominant strategy. This is one of the largest halls in term of the number of pachinko and pachislot machines installed (1,280) in the Tohoku region. However, the Company also closed down pachinko halls in FY03/2016 and FY03/2017, given worsening conditions of the market and thus of the Company, respectively two and one in terms of the number. Specifically, the Company closed down “Umeyashiki Hall” and “Nakano-shimbashi Hall”, both urban halls based in Tokyo in regards to the former and the latter “Maebashi-ohshima Hall”, a suburban hall based in Gunma-prefecture.

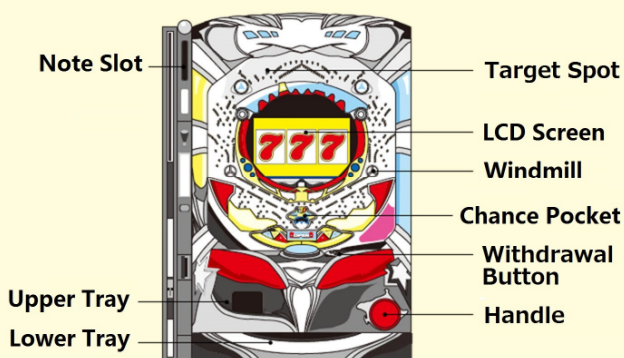
“Fukushima-taiheiji Hall” (Opened in April 2016)



Pachinko Machine

Installation of Pachinko Machines

Basic components of Pachinko Machine



*Each component may differ by the model



Inside of the Hall

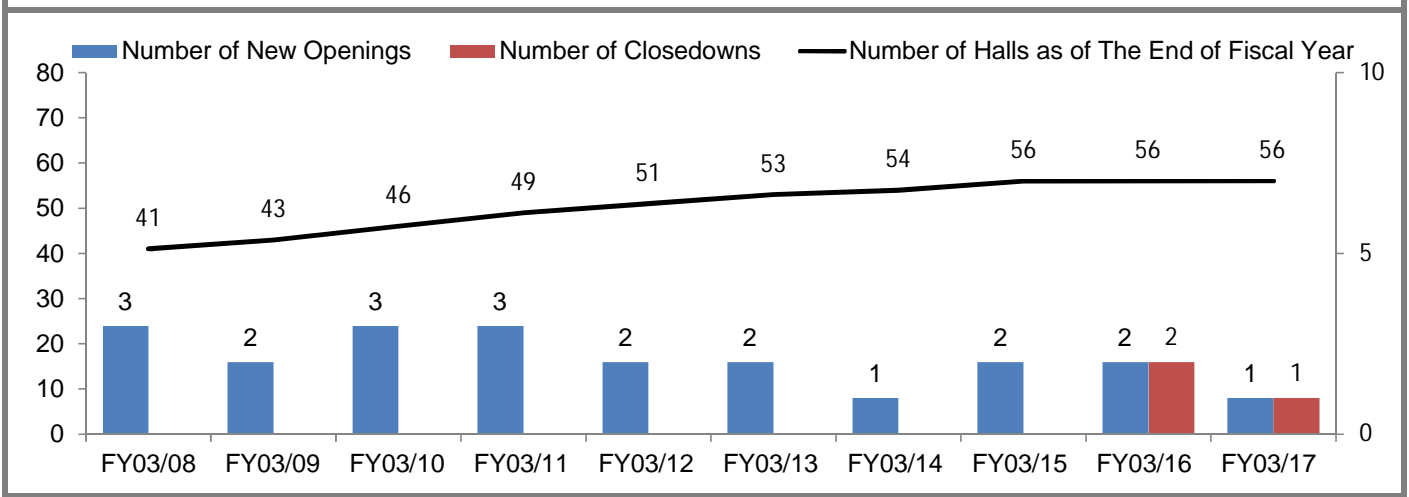
Premiums Corner



Source: Company Data

As a result, the number of halls as of the end of fiscal year has remained unchanged at 56 over the past three years, while “Annaka-itahana Hall”, a suburban hall based in Gunma-prefecture was closed down in H1 FY03/2018. Thus, the Company currently runs collective 55 halls.

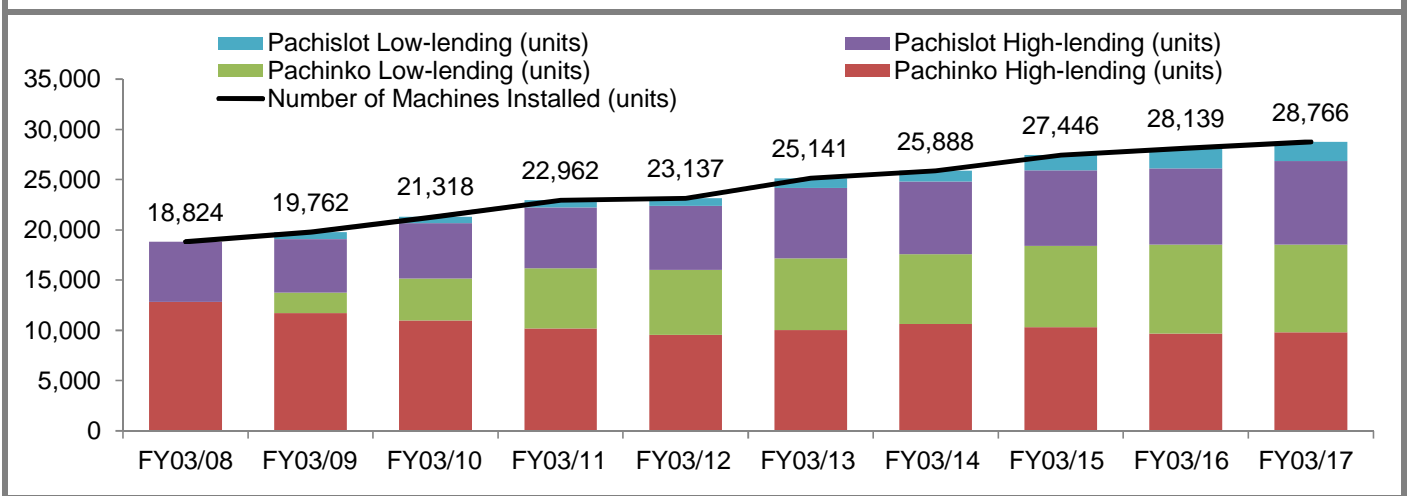
Number of Pachinko Halls



Source: Company Data

Meanwhile, the number of pachinko and pachislot machines has been edging up over the past 10 years (FY03/2008 to FY03/2017). As of the end of FY03/2017, the number stood at 28,766 (up 2.2% YoY), implying 514 per hall on a simple average basis, while exposed to pachinko by 64.5% and the remaining 35.5% for pachislot and the ratio of low-lending machines 47.1% and 19.0%, respectively.

Number of Pachinko and Pachislot Machines Installed



Source: Company Data

For example, it has been basically the case that customers borrow balls by ¥4 per unit in the existing scheme of pachinko, while low-lending machines refer to those of lending balls by ¥1 per unit and those on an existing scheme basis are referred to as high-lending as opposed to low-lending. With no changes of spending, customers are able to play longer with so-called one-yen pachinko than so-called four-yen pachinko, which is said to beef up traffic to halls. Still, gross pay-ins associated with one-yen pachinko can never exceed those of four-yen pachinko and thus it would be so important to pursue the best balance between the two.

On the other hand, the number of pachinko and pachislot machines installed is on the decreases so far in FY03/2018, negatively affected by closedown of aforementioned “Annaka-itahana Hall” in H1 FY03/2018, as far as we could see. As of the end of H1 FY03/2018, the number stood at 28,397, comprising 18,293 of pachinko and 10,104 of pachislot, down 1.3%, 1.4% and down 1.1%, respectively, when compared with equivalents as of the end of FY03/2017.

Apart from operations to run pachinko hall chain as discussed so far, NIRAKU CORPORATION is also involved with operations to run “LIZARRN”-brand Spanish restaurant franchise in Tokyo as well as with those to run “Koriyama City Hotel” in Koriyama-city of Fukushima-prefecture. On top of this, NIRAKU CORPORATION also runs NIRAKU MERRIST CORPORATION and NEXIA INC., both 100% consolidated subsidiaries. The former is in charge of propelling employment of people with disabilities, while the latter dealing with real estate issues associated with operations of pachinko halls.

“LIZARRAN” of Shinbashi	“Koriyama-ekimae Hall”	“Koriyama City Hotel”
		

Source: Company Data

In regards to operations of “LIZARRN”-brand Spanish restaurant franchise, although existing restaurant of “Akasakamitsuke (Minato-ku of Tokyo)” suffers from cumulative loss, the business condition is favorable with opening of new restaurant of “Nishishinjuku Kotakibashi-dori (Shinjuku-ku of Tokyo)” in September 2016 and another one of “Shimbashi (Minato-ku of Tokyo)” in August 2017. Thus, this business comprises all those three restaurants at the moment. Meanwhile, “Koriyama City Hotel” is run with capacity of 84 in terms of the number of rooms, based in upper floors of an 11-story building near JR Koriyama station. Said building has “Koriyama-ekimae Hall”, an urban hall of own pachinko hall operations as another tenant.

5.0 Financial Statements

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income		Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)		FY	FY	FY	FY	FY	Net Chg.
		03/2013	03/2014	03/2015	03/2016	03/2017	
Revenue		32,751	33,847	32,886	30,995	29,180	(1,815)
Other income		446	378	1,039	770	801	+31
Other losses, net		(20)	(97)	3	(272)	(47)	+225
Hall operating expenses		21,909	22,798	22,982	25,207	24,110	(1,097)
Administrative and other operating expenses		4,126	4,636	5,336	4,815	4,391	(424)
Operating profit		7,142	6,694	5,610	1,471	1,433	(38)
Finance costs, net		657	686	616	838	531	(307)
(Loss)/profit before income tax		6,485	6,008	4,994	633	902	+269
Income tax expense		2,720	2,310	1,964	452	410	(42)
(Loss)/profit for the period attributable to shareholders of the Company		3,765	3,698	3,030	181	492	+311
Other comprehensive gain/(loss)		124	433	(155)	(241)	138	+379
Total comprehensive (loss)/income for the period attributable to the shareholders of the Company		3,889	4,131	2,875	(60)	630	+690
Revenue YoY		+7.9%	+3.3%	(2.8%)	(5.8%)	(5.9%)	-
Operating profit YoY		+1.5%	(6.3%)	(16.2%)	(73.8%)	(2.6%)	-
(Loss)/profit before income tax YoY		+2.8%	(7.4%)	(16.9%)	(87.3%)	+42.5%	-
(Loss)/profit for the period attributable to shareholders of the Company YoY		+13.1%	(1.8%)	(18.1%)	(94.0%)	+171.8%	-
(Hall operating expenses / Revenue)		66.9%	67.4%	69.9%	81.3%	82.6%	+1.3%
(Administrative and other operating expenses / Revenue)		12.6%	13.7%	16.2%	15.5%	15.0%	(0.5%)
Operating profit margin		21.8%	19.8%	17.1%	4.7%	4.9%	+0.2%
(Loss)/profit before income tax margin		19.8%	17.8%	15.2%	2.0%	3.1%	+1.0%
(Loss)/profit for the period attributable to shareholders of the Company margin		11.5%	10.9%	9.2%	0.6%	1.7%	+1.1%
(Loss)/profit before income tax / Income tax expense		41.9%	38.4%	39.3%	71.4%	45.5%	(26.0%)

Source: Company Data, WRJ Calculation

Gross Pay-ins, Revenue from Pachinko and Pachislot Business

Gross Pay-ins, Revenue from Pachinko and Pachislot Hall Business	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	FY	FY	FY	FY	FY	Net Chg.
	03/2013	03/2014	03/2015	03/2016	03/2017	
Suburban halls	224,493	219,455	163,365	150,326	136,122	(14,204)
Urban halls	17,724	16,994	12,227	7,769	7,008	(761)
Gross pay-ins	242,217	236,449	175,592	158,095	143,130	(14,965)
Suburban halls	195,151	189,003	133,760	121,600	109,169	(12,431)
Urban halls	15,147	14,452	9,713	6,300	5,565	(735)
Gross pay-outs	210,298	203,455	143,473	127,900	114,734	(13,166)
Suburban halls	29,342	30,452	29,605	28,726	26,953	(1,773)
Urban halls	2,577	2,542	2,514	1,469	1,443	(26)
Revenue from pachinko and pachislot hall business	31,919	32,994	32,119	30,195	28,396	(1,799)
Suburban halls	+8.7%	(2.2%)	(25.6%)	(8.0%)	(9.4%)	-
Urban halls	(4.4%)	(4.1%)	(28.1%)	(36.5%)	(9.8%)	-
Gross pay-ins (YoY)	+7.7%	(2.4%)	(25.7%)	(10.0%)	(9.5%)	-
Suburban halls	+8.8%	(3.2%)	(29.2%)	(9.1%)	(10.2%)	-
Urban halls	(5.4%)	(4.6%)	(32.8%)	(35.1%)	(11.7%)	-
Gross pay-outs (YoY)	+7.7%	(3.3%)	(29.5%)	(10.9%)	(10.3%)	-
Suburban halls	+8.2%	+3.8%	(2.8%)	(3.0%)	(6.2%)	-
Urban halls	+2.5%	(1.4%)	(1.1%)	(41.6%)	(1.8%)	-
Revenue from pachinko and pachislot hall business (YoY)	+7.7%	+3.4%	(2.7%)	(6.0%)	(6.0%)	-
Suburban halls	92.7%	92.8%	93.0%	95.1%	95.1%	-
Urban halls	7.3%	7.2%	7.0%	4.9%	4.9%	-
Gross pay-ins (Compsition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-
Suburban halls	92.8%	92.9%	93.2%	95.1%	95.1%	-
Urban halls	7.2%	7.1%	6.8%	4.9%	4.9%	-
Gross pay-outs (Compsition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-
Suburban halls	91.9%	92.3%	92.2%	95.1%	94.9%	-
Urban halls	8.1%	7.7%	7.8%	4.9%	5.1%	-
Revenue from pachinko and pachislot hall business (compsition ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-

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.
	03/2013	03/2014	03/2015	03/2016	03/2017	
Gross pay-ins	242,217	236,449	175,592	158,095	143,130	(14,965)
Less: gross pay-outs	210,298	203,455	143,473	127,900	114,734	(13,166)
Revenue from pachinko and pachislot hall business	31,919	32,994	32,119	30,195	28,396	(1,799)
Vending machine income	748	704	592	588	564	(24)
Revenue from hotel operation	84	149	154	164	130	(34)
Revenue from restaurant operations	-	-	21	48	90	+42
Revenue	32,751	33,847	32,886	30,995	29,180	(1,815)
Gross pay-ins	+7.7%	(2.4%)	(25.7%)	(10.0%)	(9.5%)	-
Less: gross pay-outs	+7.7%	(3.3%)	(29.5%)	(10.9%)	(10.3%)	-
Revenue from pachinko and pachislot hall business	+7.7%	+3.4%	(2.7%)	(6.0%)	(6.0%)	-
Vending machine income	+3.3%	(5.9%)	(15.9%)	(0.7%)	(4.1%)	-
Revenue from hotel operation	-	+77.4%	+3.4%	+6.5%	(20.7%)	-
Revenue from restaurant operations	-	-	-	+128.6%	+87.5%	-
Revenue (YoY)	+7.9%	+3.3%	(2.8%)	(5.8%)	(5.9%)	-
Revenue from pachinko and pachislot hall business	97.5%	97.5%	97.7%	97.4%	97.3%	-
Vending machine income	2.3%	2.1%	1.8%	1.9%	1.9%	-
Revenue from hotel operation	0.3%	0.4%	0.5%	0.5%	0.4%	-
Revenue from restaurant operations	-	0.0%	0.1%	0.2%	0.3%	-
Revenue (Compsition ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-

Source: Company Data, WRJ Calculation

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	FY	FY	FY	FY	FY	Net Chg.
	03/2013	03/2014	03/2015	03/2016	03/2017	
Cash flows from operating activities (A)	7,684	6,280	5,929	2,158	5,320	+3,162
Cash flows from investing activities (B)	(2,902)	(1,390)	(1,949)	(122)	(273)	(151)
Free cash flows (A)+(B)	4,782	4,890	3,980	2,036	5,047	+3,011
Cash flows from financing activities	(10,458)	(3,390)	(2,909)	794	(3,953)	(4,747)

Source: Company Data, WRJ Calculation

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position (Million Yen)	Cons. Act FY 03/2013	Cons. Act FY 03/2014	Cons. Act FY 03/2015	Cons. Act FY 03/2016	Cons. Act FY 03/2017	YoY Net Chg.
Property, plant and equipment	23,735	25,817	27,126	28,470	26,406	(2,064)
Investment properties	669	676	681	697	678	(19)
Intangible assets	161	167	189	210	182	(28)
Prepayments, deposits and other receivables	4,310	4,251	4,772	4,198	3,866	(332)
Amounts due from directors and a shareholder	311	304	-	-	-	-
Financial assets at fair value through profit or loss	546	601	201	106	104	(2)
Financial assets at fair value through other comprehensive income	919	1,574	1,378	1,013	1,210	+197
Deferred income tax assets	1,612	1,462	1,771	1,781	1,656	(125)
Long-term bank deposits	71	84	125	185	35	(150)
Non-current assets	32,334	34,936	36,243	36,660	34,137	(2,523)
Inventories	86	21	719	413	20	(393)
Trade receivables	64	54	52	64	88	+24
Prepayments, deposits and other receivables	1,035	1,546	1,602	1,456	1,457	+1
Current income tax recoverable	-	121	495	957	55	(902)
Amounts due from directors	12	12	-	-	-	-
Financial assets at fair value through profit or loss	-	100	100	100	-	(100)
Bank deposits with maturity over 3 months	1,754	1,706	2,286	297	252	(45)
Cash and cash equivalents	6,909	8,409	9,480	12,310	13,404	+1,094
Current assets	9,860	11,969	14,734	15,597	15,276	(321)
Total assets	42,194	46,905	50,977	52,257	49,413	(2,844)
Share capital	10	10	10	3,000	3,000	-
Reserves	17,842	21,790	22,846	24,097	24,499	+402
Non-controlling interest	-	-	-	-	-	-
Total equity	17,852	21,800	22,856	27,097	27,499	+402
Borrowings	7,991	9,270	11,318	9,732	8,656	(1,076)
Obligations under finance leases	4,158	5,366	3,981	5,070	4,048	(1,022)
Provisions and other payables	1,430	1,485	1,676	2,057	1,989	(68)
Derivative financial instruments	26	33	26	14	11	(3)
Non-current liabilities	13,605	16,154	17,001	16,873	14,704	(2,169)
Trade payables	382	201	106	132	123	(9)
Borrowings	3,082	3,109	3,930	3,295	2,394	(901)
Obligations under finance leases	2,394	2,253	1,886	1,530	1,160	(370)
Accruals, provisions and other payables	3,584	2,344	4,209	3,326	3,532	+206
Derivative financial instruments	18	15	15	2	1	(1)
Current income tax liabilities	1,277	1,029	974	2	-	(2)
Current liabilities	10,737	8,951	11,120	8,287	7,210	(1,077)
Total liabilities	24,342	25,105	28,121	25,160	21,914	(3,246)
Total equity and liabilities	42,194	46,905	50,977	52,257	49,413	(2,844)
Interest bearing debt	17,625	19,998	21,115	19,627	16,258	(3,369)
Net debt	8,962	9,883	9,349	7,020	2,602	(4,418)
Equity ratio	42.3%	46.5%	44.8%	51.9%	55.7%	-
Net debt equity ratio	50.2%	45.3%	40.9%	25.9%	9.5%	-
ROE (12 months)	20.6%	18.7%	13.6%	0.7%	1.8%	-
ROA (12 months)	14.8%	13.5%	10.2%	1.2%	1.8%	-
Quick ratio	81%	114%	106%	153%	191%	-
Current ratio	92%	134%	133%	188%	212%	-

Source: Company Data, WRJ Calculation

Per Share Data

Per Share Data (Before Adjustments for Split) (Yen)	Cons.Act FY 03/2013	Cons.Act FY 03/2014	Cons.Act FY 03/2015	Cons.Act FY 03/2016	Cons.Act FY 03/2017	YoY Net Chg.
No. of shares FY end (-000 shares)	-	-	895,850	1,195,850	1,195,850	-
Net profit / EPS (-000 shares)	-	-	896,449	1,206,666	1,200,000	(6,667)
Earnings per share	-	-	3.38	0.15	0.41	+0.26
Dividend per share	-	-	0.76	0.10	0.12	+0.02
Payout ratio	-	-	22.5%	66.7%	29.3%	(37.4%)
Per Share Data (After Adjustments for Split) (Yen)	Cons.Act FY 03/2013	Cons.Act FY 03/2014	Cons.Act FY 03/2015	Cons.Act FY 03/2016	Cons.Act FY 03/2017	YoY Net Chg.
Share split factor	-	-	1	1	1	-
Earnings per share	-	-	3.38	0.15	0.41	+0.26
Dividend per share	-	-	0.76	0.10	0.12	+0.02

Source: Company Data, WRJ Calculation

6.0 Other Information

”Happy Time Creation”

The Company’s history started with setup of a pachinko hall in Mito-city of Ibaraki-prefecture by Tetsuyoshi Taniguchi, the founder, in 1950. In almost 70 years since then, the Company currently runs firm pachinko hall chain, comprising collective 55 pachinko halls in East Japan. Meanwhile, according to Hisanori Taniguchi, current chief executive officer with the Company, having succeeded management from Tetsuyoshi Taniguchi, the founder, with a period of management by Masataka Taniguchi in-between, the Company is spicy with its main characteristics, i.e., it has established own dominant strategy in Fukushima-prefecture, while being able to quickly implement diverse measures as the organization not being bloated up.

In 1954, the Company newly opened “Niraku Hall” in Koriyama-city of 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 Second World War. Since the early days, the Company has been standing by its corporate slogan of “Happy Time Creation” to date, while having consistently strived to ensure a joyful experience and kindness for customers. This customer first principle made it possible to well cope with ever-changing trends of pachinko market and customer preference, having established pachinko chain currently comprising collective 55 halls. The Company will remain placing the utmost emphasis on the customer first principal, trying to beef up own corporate value as an entity to create happiness among people.

Meanwhile, “NIRAKU GC HOLDINGS, INC.” was established on 10 January 2013, which was followed by affiliation of NIRAKU CORPORATION to have been running above-mentioned pachinko hall chain as consolidated subsidiary under management of the Company in April of the same year. Then, on 8 April 2015, “NIRAKU GC HOLDINGS, INC.” got listed on mainboard of Hong Kong Stock Exchange, while the Company set up Hong Kong office at the same time. The Company has claimed that it is going to start up overseas business in Southeast Asia, etc. with all those issues as bridgeheads,, while so did in fact by procuring all the shares of Dream Games Company, on 20 November 2017, to make it own consolidated subsidiary.

Company History

Date	Events
1954	Opened first hall in Koriyama-city of Fukushima-prefecture, under “NIRAKU” brand
August 1969	Established Niraku Shoji Corporation (Nakano-ku of Tokyo)
July 1979	The “Niraku Hall” was renamed as “Daiwa”, while opened “Koriyama City Hotel”
1980s	Opened four halls in Fukushima-prefecture (three halls in Koriyama-city)
1990 to 1997	Opened 10 halls
December 1991	Opened Nikku club (Changed to the training facilities in 2000)
August 1992	Opened the 10th hall in Nakano-shimbashi
August 1998	Changed the company name to “NIRAKU CORPORATION”
2001	Opened 5 halls
2002	Renamed the name of the halls from “Daiwa” to “NIRAKU”
2002 to 2005	Opened 15 halls
February 2003	Opened the 20th pachinko hall in Soma
2006 to 2010	Opened 16 new halls in Tokyo, Fukushima-prefecture and their neighboring and conjoining prefectures
February 2010	Established a special subsidiary company “NIRAKU MERRIST CORPORATION “
November 2010	Opened the 20th hall in Fukushima-prefecture (in Sasakino)
May 2011	Opened the 50th hall (Koriyama-arai in Fukushima-prefecture)
January 2013	Established ‘NIRAKU GC HOLDINGS, INC.’”
April 2013	‘NIRAKU GC HOLDINGS, INC.’ becomes a holding company of “NIRAKU CORPORATION”
October 2014	Opened the first Spanish restaurant in Tokyo under the brand “LIZARRAN”
April 2015	NIRAKU GC HOLDINGS INC. listed on the mainboard of Hong Kong Stock Exchange
November 2017	Consolidated Dream Games Singapore Pte. Ltd. as subsidiary

Disclaimer

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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