

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)
FY03/2020	28,046	1,955	581	179	0.15	0.10
FY03/2021	18,541	(7,203)	(8,502)	(5,481)	(4.58)	0.00
FY03/2022	22,209	861	(171)	(1,181)	(0.99)	0.40
FY03/2021	YoY	(33.9%)	-	-	-	-
FY03/2022	YoY	19.8%	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (5 September 2022)


Raising Market Share

NIRAKU GC HOLDINGS, which runs Pachinko & Pachislot Hall Operations in eastern Japan, has come out with a policy of raising market share. For FY03/2021, the Company suffered from a sharp decline in revenue due to the impact of Corona crisis and booking of a large impairment loss in line with withdrawals from unprofitable halls, etc., having had resulted in operating profit margin of minus 38.8%, down no less than 45.8% points from 7.0% for FY03/2020, when the impact of Corona crisis is considered not to have prevailed yet. Meanwhile, the Company has seen operating profit margin of 3.9% (up no less than 42.7% points YoY) for FY03/2022, when the impact of Corona crisis was somewhat loosened, with a recovery of revenue up to the level equating some 80% of FY03/2020, a reduced impairment loss and a drastic progress made in rationalization of hall operations. At the same time, the Company has resumed dividend payment in response to such a substantial improvement in earnings. More importantly, the Company has acquired two halls run by trades with all their furnishings toward the end of FY03/2022, which is expected to bring in an effect on increased revenue for FY03/2023, while further decrease in impairment loss is likely. Now, the Company is looking to an improvement in earnings, exceeding the impact of an effect on increased revenue, while planning to further increase the number of halls to operate through acquisitions with all their furnishings, etc. from a long-term perspective for the sake of raising market share, which is expected to be the key growth driver for the future.

IR Representative: Masataka Watanabe, Group General Affairs Dept. (masataka.watanabe@niraku.co.jp)

2.0 Company Profile

Running Pachinko & Pachislot Hall Operations

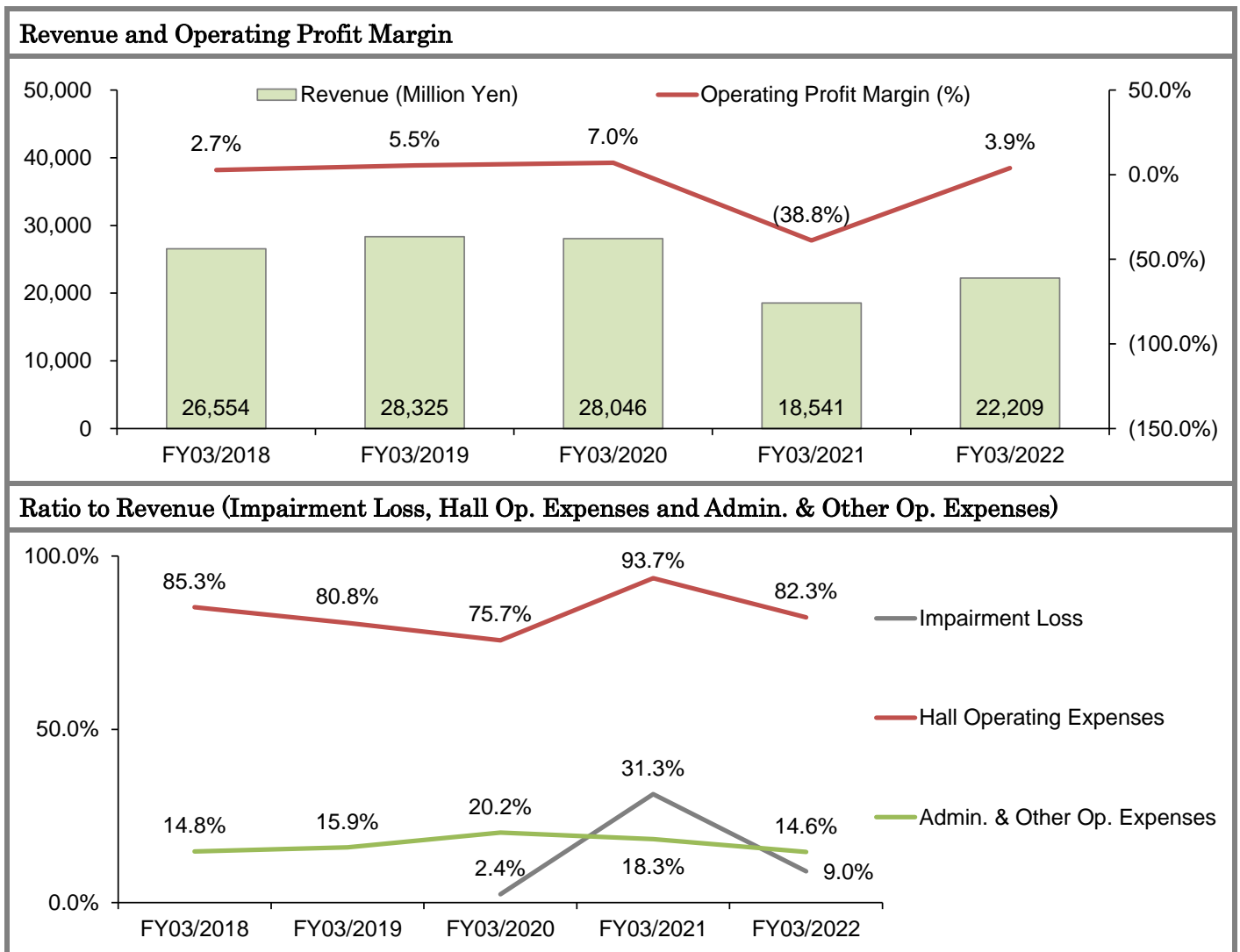
Company Name	NIRAKU GC HOLDINGS, INC. Website IR Information Share Price (Japanese) 
Established	10 January 2013
Listing	8 April 2015: Hong Kong Stock Exchange Mainboard (ticker: 1245)
Capital	¥3,000m (as of the end of March 2022)
No. of Shares	1,195,850,460 shares (as of the end of March 2022)
Main Features	<ul style="list-style-type: none"> ● Running pachinko & pachislot halls in eastern Japan (collective 49 halls as of the end of FY03/2022) ● 20 halls in Fukushima-prefecture (9 halls in Koriyama-city) and 29 in other eastern Japan prefectures ● Operations in ex-Japan Asia, being resumed after Corona crisis
Segments	I . Pachinko & Pachislot Hall Operations II . Amusement Arcade Operations III . Restaurant Operations IV . Other Operations
Representative	Chairperson of the Board, Executive Director and CEO: Hisanori Taniguchi
Shareholders	HKSCC Nominees Limited 30.96%, Densho Limited 18.86%, Jikki Limited 15.14%, SMBC Trust Bank Ltd. 4.46% (as of the end of March 2022)
Head Office	Koriyama-city, Fukushima-prefecture, JAPAN
No. of Personnel	Consolidated: 1,630, unconsolidated: 11 (as of the end of March 2022)

Source: Company Data

3.0 Recent Trading and Prospects

FY03/2022

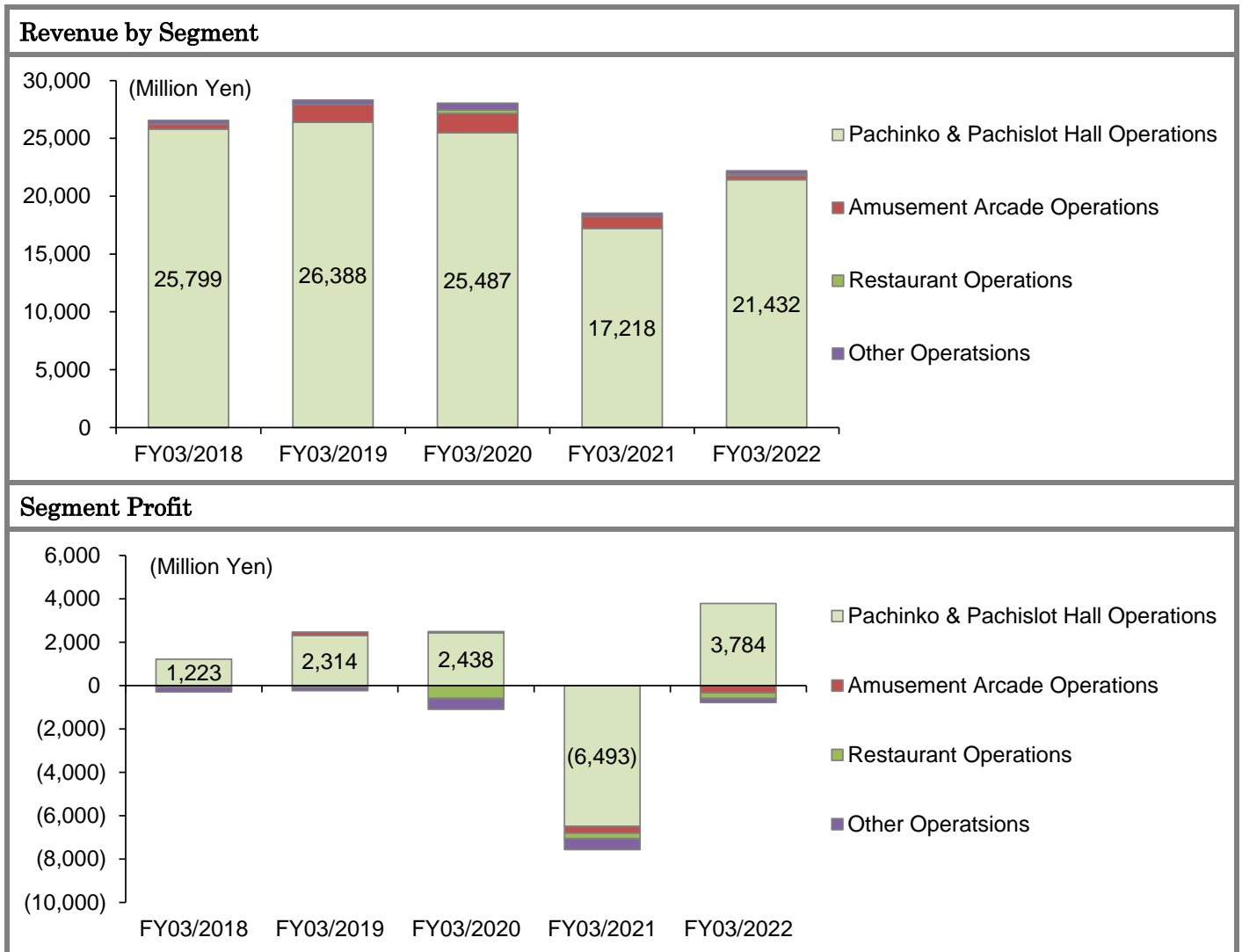
For FY03/2022, revenue came in at ¥22,209m (up 19.8% YoY), operating profit ¥861m (versus minus ¥7,203m in the previous year), profit before income tax minus ¥171m (minus ¥8,502m) and profit attributable to owners of the Company minus ¥1,181m (minus ¥5,481m), while operating profit margin 3.9% (up 42.7% points). In terms of comparison with the level of revenue for FY03/2020, when the impact of Corona crisis is considered not to have prevailed yet, the Company saw a recovery in revenue up to no more than 79.2% but a V-shaped recovery at the operating level, having resulted in resumption of dividend payment (¥0.4 per share). For FY03/2021, dividend payment was suspended due to substantial loss.



Source: Company Data, WRJ Calculation

By segment, Pachinko & Pachislot Hall Operations saw revenue of ¥21,432m (up 24.5%), segment profit of ¥3,784m (versus minus ¥6,493m in the previous year) and segment profit margin of 17.7% (up 55.4% points), having accounted for 96.5% of revenue for the Company as a whole and 120.6% for segment profit. Thus, the Company's performance at the moment hinges on that of Pachinko & Pachislot Hall Operations to a considerably large extent.

Meanwhile, the Company saw a trend of decreased ratio to revenue with respect to expenses across the board for FY03/2022 over FY03/2021, including impairment loss, hall operating expenses and administrative & other operating expenses, which is directly linked to above-mentioned major improvement in operating profit margin. In light of the fact that the Company's performance hinges on that of Pachinko & Pachislot Hall Operations, it should be the case that this trend is basically of this segment.

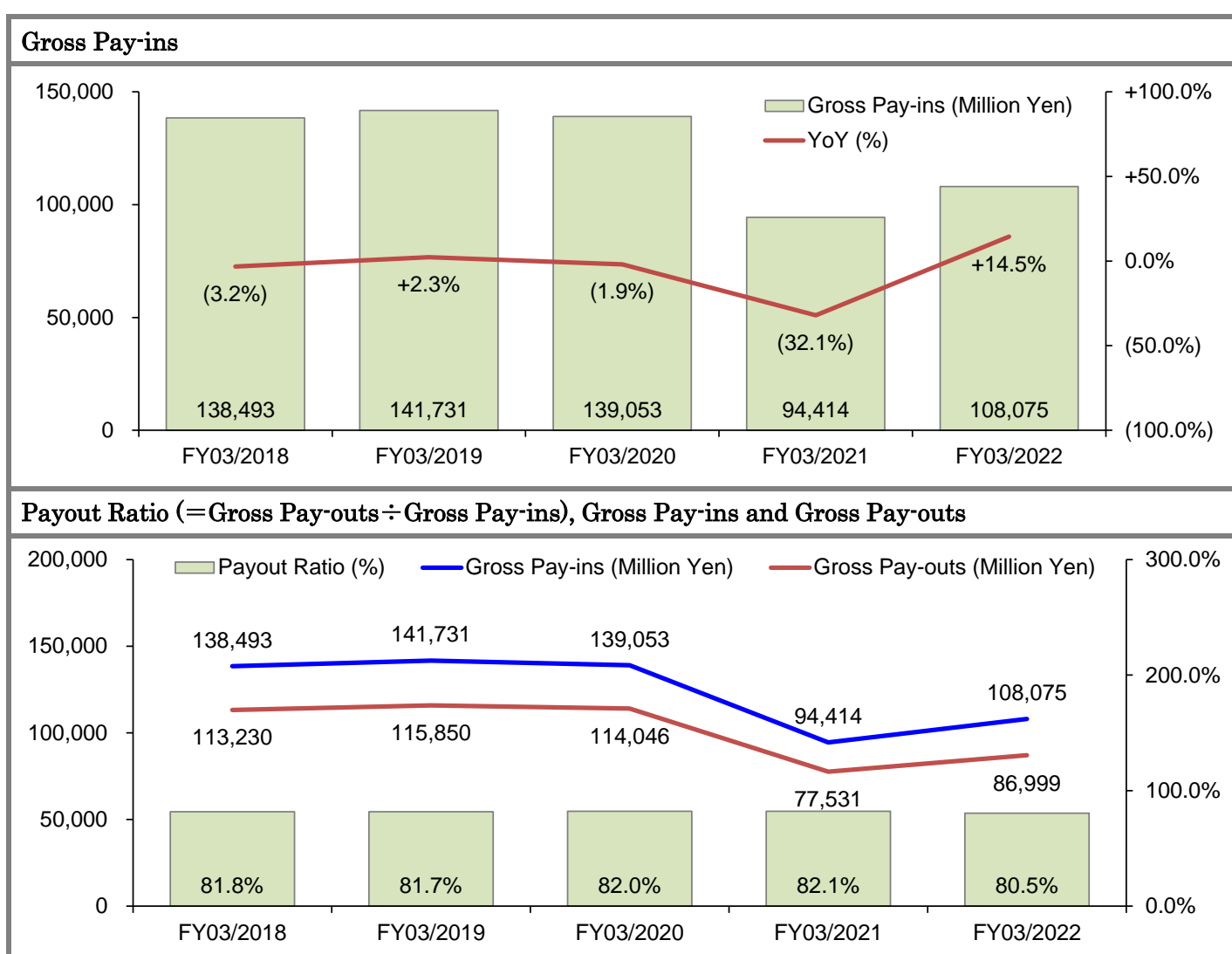


Source: Company Data, WRJ Calculation

Compared with revenue of Pachinko & Pachislot Hall Operations, the Company sees revenue far smaller for all the rest of the segments, i.e., Arcade Operations, Restaurant operations and Other operations, while they have a tendency of consistently suffering from loss due partly to an aspect that they are of operations to directly suffer from the impact of Corona crisis, Nevertheless, it could be said that the absolute amount of loss from all those segments is rather limited in comparison with earnings from Pachinko & Pachislot Hall Operations at the same time. By the way, Amusement Arcade Operations reflects performance of running Japanese-style gaming arcades in Vietnam and Cambodia, Restaurant operations Japanese-style food court in Shenzhen, China and Other operations Koriyama City Hotel as well as eating and drinking establishments in Japan.

Revenue of Pachinko & Pachislot Hall Operations

For FY03/2022, the Company saw revenue of ¥21,432m (up 24.5%) for Pachinko & Pachislot Hall Operations, comprising ¥21,076m (up 24.8%) of pachinko & pachislot business and ¥356m (up 6.3%) of vending machine income. With respect to the latter, the Company sees revenue related to vending machines (beverages, etc.) installed at own pachinko & pachislot halls, while revenue of pachinko & pachislot business, accounting for the bulk of revenue in this segment, corresponds to the value obtained by subtracting gross pay-outs (aggregate cost of G-prizes for customers to sell for cash and general prizes) from gross pay-ins. For FY03/2022, gross pay-ins came in at ¥108,075m (up 14.5%) and gross pay-outs ¥86,999m (up 12.2%), implying payout ratio (=gross pay-outs ÷ gross pay-ins) of 80.5% (down 1.6% points). In other words, the rate of increase in revenue of pachinko & pachislot business has exceeded that of gross pay-ins to an extent of a decline in payout ratio.



Source: Company Data, WRJ Calculation

Impairment Loss

The Company saw impairment loss of ¥676m for FY03/2020, which was followed by impairment loss of ¥5,796m for FY03/2021. The former comprised impairment loss on property, plant and equipment of ¥213m and impairment loss on right-of-use assets of ¥463m, while mainly Pachinko & Pachislot Hall Operations (¥288m), Other Operations (¥297m) and Restaurant Operations (¥91m) by segment. The latter comprised impairment loss on property, plant and equipment of ¥2,949m, impairment loss on right-of-use assets of ¥2,463m and impairment loss on intangible assets of ¥204m, while basically Pachinko & Pachislot Hall Operations by segment, i.e., impairment loss on property, plant and equipment of ¥2,929m (99.3%) and impairment loss on right-of-use assets of ¥2,488m (94.1%). For FY03/2021, the impact of Corona crisis was significant for Pachinko & Pachislot Hall Operations, having resulted in significantly reduced revenue as well as strategic withdrawals from unprofitable halls, which is cited as the key background.

Meanwhile, the Company saw impairment loss of ¥2,004m for FY03/2022, having declined sharply from the previous year and substantially contributed to a recovery in earnings for the Company as a whole. Due partly to a recovery in revenue, the ratio to revenue came in at 9.0%, down no less than 22.3% points from 31.3% in the previous year, which made an improvement in operating profit margin to the same extent. On top of this, the Company suggests that it saw a reduction by ¥225m for depreciation charges stemming from impairment loss on property, plant and equipment of ¥2,949m for FY03/2021. Elsewhere, impairment loss of ¥2,004m for FY03/2022 comprised impairment loss on property, plant and equipment of ¥168m, impairment loss on right-of-use assets of ¥759m and impairment loss on intangible assets of ¥1,077m. The Company saw a substantial decline over the previous year for impairment loss on property, plant and equipment as well as for impairment loss on right-of-use assets, but a substantial increase for impairment loss on intangible assets, which is attributable to goodwill write-off in Amusement Arcade Operations. The Company suggests that there are virtually no further potentials now for impairment overseas as a result of this write-off. Meanwhile, in Japan did Pachinko & Pachislot Hall Operations see segment profit margin of 17.7% for FY03/2022, having had gone through above-mentioned massive impairment loss and rationalization in hall operations. In light of an expectation for revenue to increase further for FY03/2023, the Company is now exposed to a reduced risk for additional impairment as far as we could see.

Hall Operating Expenses / Administrative & Other Operating Expenses

For hall operating expenses also, the Company saw the ratio to revenue declined, while the same applies to administrative & other operating expenses at the same time, respectively, down 11.4% points (93.7% to 82.3%) and down 3.7% points (18.3% to 14.6%). One of the reasons why both have declined is that revenue was recovering as in the case of the ratio of impairment loss to revenue. Meanwhile, it appears that the above-mentioned decrease in depreciation charges cut back on the absolute amounts of both, collectively, to a corresponding extent. For the operations of pachinko & pachislot halls, the Company has made a drastic progress for rationalization in the first place, while suggesting the same for administrative & other operating expenses at the same time. In other words, all those factors to have cut back on absolute amount of hall operating expenses and administrative & other operating expenses are also major contributors behind the lowered ratio to revenue.

4.0 Slogan and Business Model

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. After more than 70 years since then, the Company had the number of pachinko & pachislot halls run under management as many as collective 49 in eastern Japan as of the end of FY03/2022. Meanwhile, according to Hisanori Taniguchi, current Chairperson 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 a spicy entity with its main characteristics, i.e., that it has established own strategic dominance in Koriyama-city, Fukushima-prefecture, where it is currently based, 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, Fukushima-prefecture, which was followed by growth of the Company driven by booming pachinko market and by economic prosperity after the Second World War. Meanwhile, the Company has been striving to provide customers visiting the halls with an agreeable atmosphere and a fun time through congenial services as the primary issue by means of standing by the corporate slogan of "Making Life Happy, Enjoyable and Fun", advocated since the early days for the operations of the halls. The Company says that this "customers first" policy makes it possible to adjust itself to ever-changing trends in the market for pachinko & pachislot as well as customer preferences. The Company is trying to get at further enhancement of corporate value as an entity to create happiness to be provided for regional people, represented by customers visiting the halls.

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 & pachislot hall operations 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 (ticker: 1245), while having started up operations in ex-Japan Asia by means of consolidating Dream Games Singapore Pte. Ltd. on 20 November 2017 with procurement of 100% of the shares outstanding. Elsewhere, it was on 20 June 2019, when the Company started up running Japanese-style food court in Shenzhen, China. From a long-term perspective, the Company is aiming to shift to "comprehensive entertainment company" by strengthening its operations in ex-Japan Asia like the said ones.

Company History

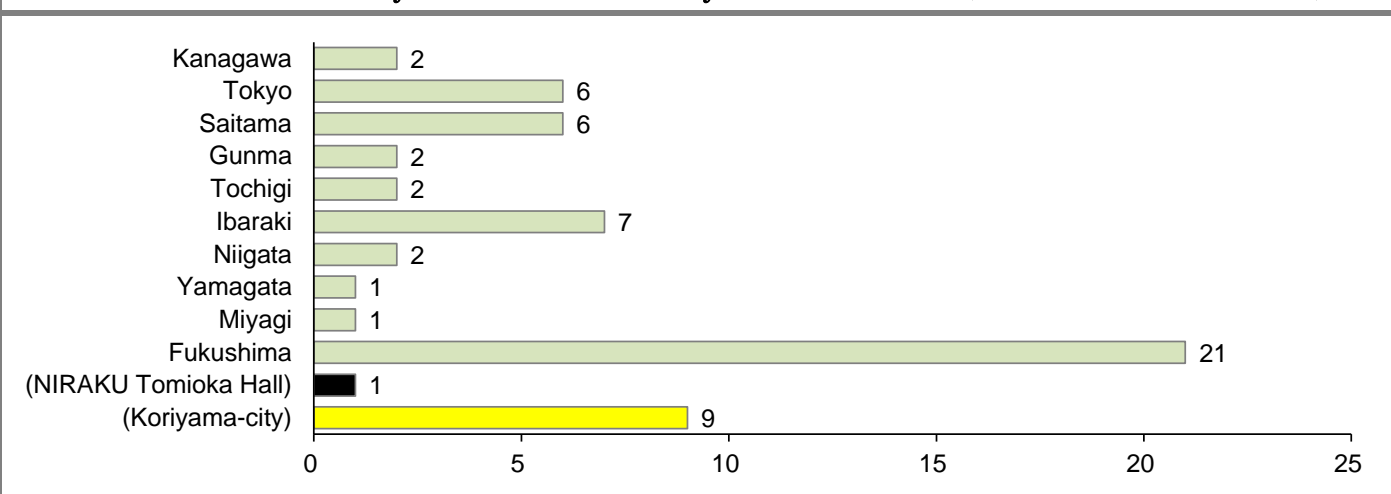
Date	Events
1954	Opened the first hall in Koriyama-city, Fukushima-prefecture, under "NIRAKU" brand
August 1969	Established Niraku Shoji Corporation (Nakano-ku, Tokyo)
July 1979	The "NIRAKU Hall", renamed as "DAIWA", opened "Koriyama City Hotel"
1980s	Opened four halls in Fukushima-prefecture (three in Koriyama-city)
1990 to 1997	Opened 10 halls
December 1991	Opened Nikku club (changed to the training facility in 2000)
August 1992	Opened the 10th hall in Nakano Shimbashi)

August 1998	Changed the company name to “NIRAKU Corporation”
2001	Opened five halls
2002	Renamed the name of the halls from “DAIWA” to “NIRAKU”
2002 to 2005	Opened fifteen halls
February 2003	Opened the 20th hall in Soma
2006 to 2010	Opened sixteen 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 Sasakino, Fukushima-prefecture
May 2011	Opened the 50th hall in Koriyama Arai, Fukushima-prefecture
January 2013	Established “NIRAKU GC HOLDINGS, INC.”
April 2013	NIRAKU GC HOLDINGS, INC.” becomes a holding company of “NIRAKU Corporation”
October 2014	NIRAKU Corporation opened its first Spanish bar-restaurant in Tokyo under the brand “LIZARRAN”
April 2015	Listed on the mainboard of Hong Kong Stock Exchange on 8 April 2015
April 2016	NIRAKU Corporation, opened hall in Taiheiji, Fukushima
May 2017	Established a joint holding company, NPJ Hong Kong Limited, in Hong Kong through a wholly owned subsidiary NGCH Hong Kong Limited, to enter the food court business in Shenzhen, China
November 2017	Dream Games Singapore Pte. Ltd. (based in Singapore) became a subsidiary
December 2017	NIRAKU Corporation opened hall in Hitachiomiya, Ibaraki
June 2018	NIRAKU Corporation opened the first Komeda’s Coffee store on the Niraku premises in Atago, Kazo
January 2019	NIRAKU Corporation opened the second Komeda’s Coffee store on the Niraku premises in Shinko, Iruma
March 2019	NIRAKU Corporation opened Spanish restaurant & bar LIZARRAN in Takadanobaba, Tokyo
October 2019	NIRAKU Corporation, opened Spanish restaurant & bar LIZARRAN in Sangenjaya, Tokyo
August 2020	NIRAKU Corporation opened hall in Omachi, Koriyama
October 2020	Second-generation subsidiary, Nexia Inc., acquired as subsidiary
July 2021	Established "Ocube, INC."
November 2021	NIRAKU Corporation opened Goncha store in S-PAL II Sendai, Sendai and Odakyu Marche Tama Center, Tokyo.
February 2022	NIRAKU Corporation opened hall in Hitachino,Ushiku
March 2022	NIRAKU Corporation opened hall in Mochida, Gyoda

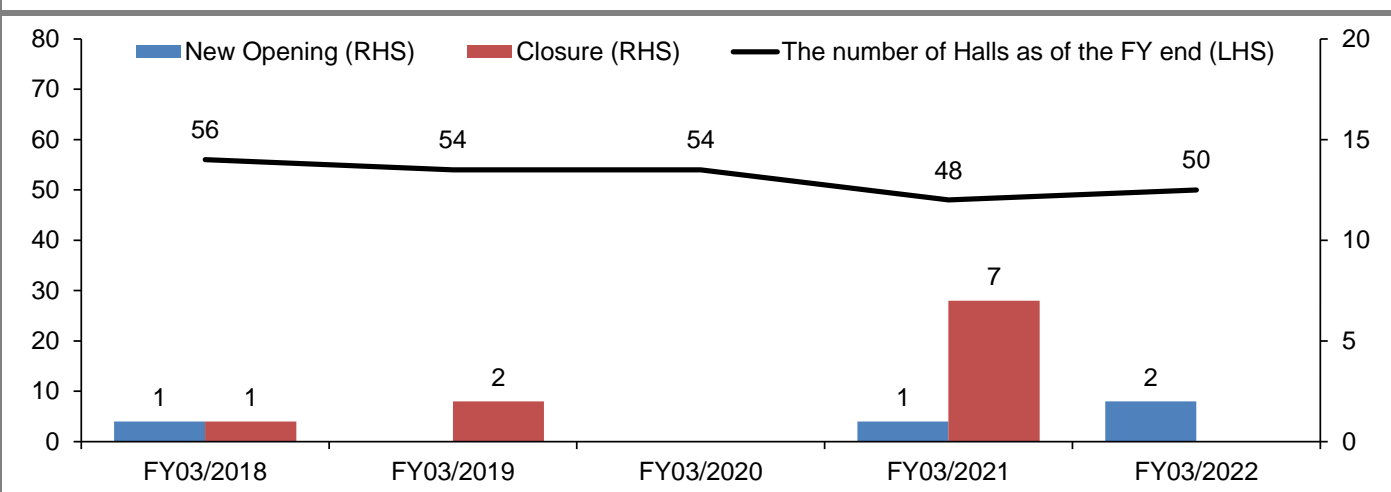
NIRAKU Corporation (100% subsidiary) / Running Pachinko & Pachislot Hall Operations

The Company is a holding company with four fully owned subsidiaries under management, i.e., NIRAKU Corporation, NEXIA INC., NGCH Hong Kong Limited and Dream Games Singapore Pte. Ltd. Meanwhile, NIRAKU Corporation runs NIRAKU MERRIST CORPORATION and Ocube INC. as 100% subsidiaries (the Company's second-generation subsidiaries) and NGCH Hong Kong Limited runs NPJ Hong Kong Limited as a 51% subsidiary (the Company's next-generation subsidiary). By the way, NPJ Hong Kong Limited runs NPJ China YOKOCHO Co., Ltd. as 100% subsidiary (subsidiary of the Company's second-generation subsidiary). At the same time, Dream Games Singapore Pte. Ltd. runs three 100% subsidiaries (the Company's second-generation subsidiaries), i.e., Dream Games (Japan) Co., Ltd., Dream Games Vietnam Co, Ltd. and Dream Games Cambodia Co., Ltd.

Pachinko & Pachislot Halls by Prefecture: Collectively 50 in the Number (as of the end of FY03/2022)



The Number of Pachinko & Pachislot Halls

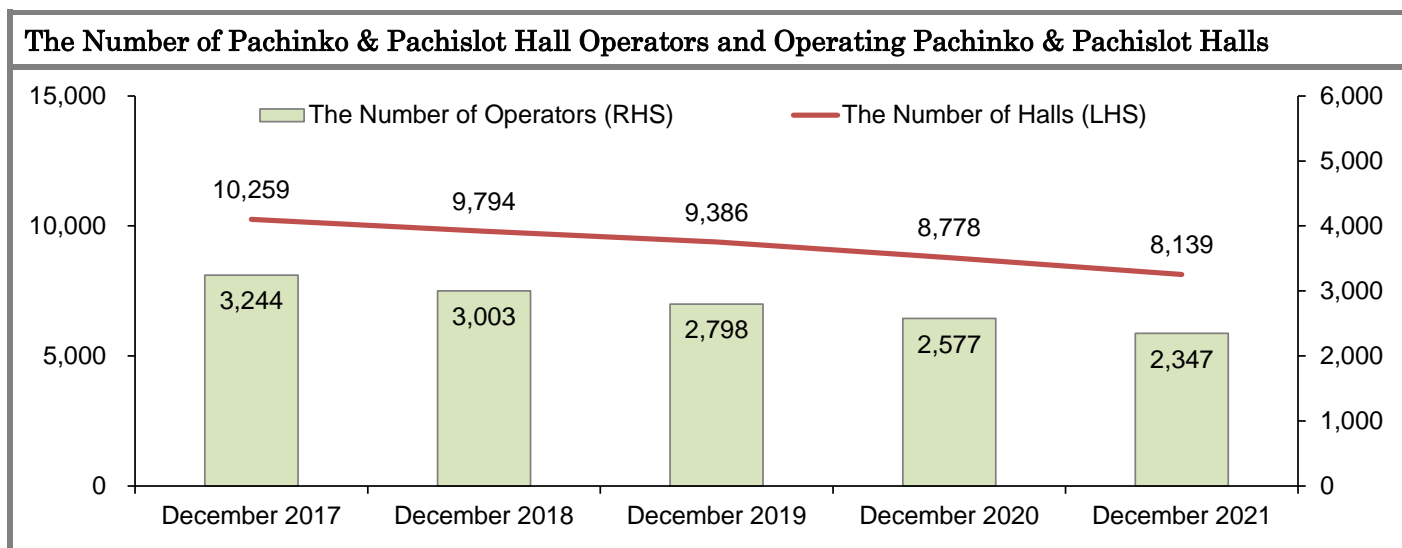


Source: Company Data

The Company's performance as a whole at the moment heavily hinges on that of NIRAKU Corporation in charge of running pachinko & pachislot halls in eastern Japan, primarily in Koriyama-city, Fukushima-prefecture. As of the end of FY03/2022, the number of halls run by NIRAKU Corporation stood at 49, collectively. When including NIRAKU Tomioka Hall (Futaba-gun, Fukushima-prefecture: when to resume operations not decided yet) whose operations have been suspended due to the impact of Great East Japan Earthquake occurred on 11 March 2011, the number stood at 50, collectively.

For FY03/2021, when the impact of Corona crisis became substantial, the Company newly opened one hall (through acquisition of a hall run by a trade with all its furnishings), while having had closed down seven halls at the same time. With respect to the latter, one of them was of “constative closedown” planned originally and the remaining six halls were closed down with a strategy to reallocate management resources looking to the advent of post-Corona situations in the near future. Thus, all of them were closed down in a proactive manner, according to the Company. Meanwhile, the Company also says that the former has the ability to pull in customers as much as roughly compensating for the lost ability by all those closures. Meanwhile, for FY03/2022, when the impact of Corona crisis was rather relaxed, the Company newly opened two halls (through acquisition of halls run by trades with all their furnishings) toward the end of the year, while not having closed down any. Given a remarkable progress made for rationalization in operating halls on the occasion of prevailing impact of Corona crisis, the Company has been seeing a lowered break-even point for the operations, while planning to continue opening new halls (through acquisition of halls run by trades with all their furnishings) by means of leveraging the knowhow obtained here.

With respect to the two halls newly opened toward the end of FY03/2022, it used to be the case that it was too hard to realize a sufficient improvement in the balance of receipts and expenditures, while it is now possible together with the above-mentioned knowhow, according to the Company. Going forward, the Company is to take the measure of halls to see a sufficient improvement in the balance of receipts and expenditures by means of adopting operations by the Company and add them in under management, which is expected to increase the number of halls to operate as well as the number of gaming machines installed, resulting in the increase for own market share, according to the Company.



Source: [Yano Research Institute Ltd.](#)

The data published by Yano Research Institute Ltd. suggests that the number of pachinko & pachislot hall operators declined by 27.7% through December 2017 to December 2021 and by 20.7% for the number of operating pachinko & pachislot halls. Meanwhile, the number of operating halls per operator came in at 3.5 for December 2021, when based on a simple calculation, while having increased by 9.7% during the said period. In other words, the size of the market which the Company confronts with Pachinko & Pachislot Hall Operations or the overwhelming source of earnings at the moment is continually shrinking, while the number of operating halls per operator is on the rise. In light of this, the market is consolidating, which is likely to be accelerating with a prospect that the trend is to inevitably persist for the future. Given such market conditions, the Company's idea is to steadily make money by means of surviving the market, while aiming at growth by means of raising market share.

For FY03/2021, the Company closed down NIRAKU Bizutsukan-Dori Hall (Koriyama-city, Fukushima-prefecture) on 14 June 2020. However, this was of “constructive closedown” planned originally, having had been conducted in conjunction with the project to newly open a large-scale hall in the neighborhood, according to the Company. In fact, the Company did newly open NIRAKU Koriyama-Omachi Hall (Koriyama-city, Fukushima-prefecture) with the number of gaming machines installed as many as 1,029 units (644 units of pachinko and 385 units of pachislot) on 8 August 2020 in the middle of prevailing impact of Corona crisis. The Company says that the number of gaming machines installed equates roughly double in terms of comparison with NIRAKU Bizutsukan-Dori Hall (Koriyama-city, Fukushima-prefecture) which saw a “constructive closedown.”

NIRAKU Koriyama-Omachi Hall (Koriyama-city, Fukushima-prefecture / newly opened on 8 August 2020)



Source: Company Data

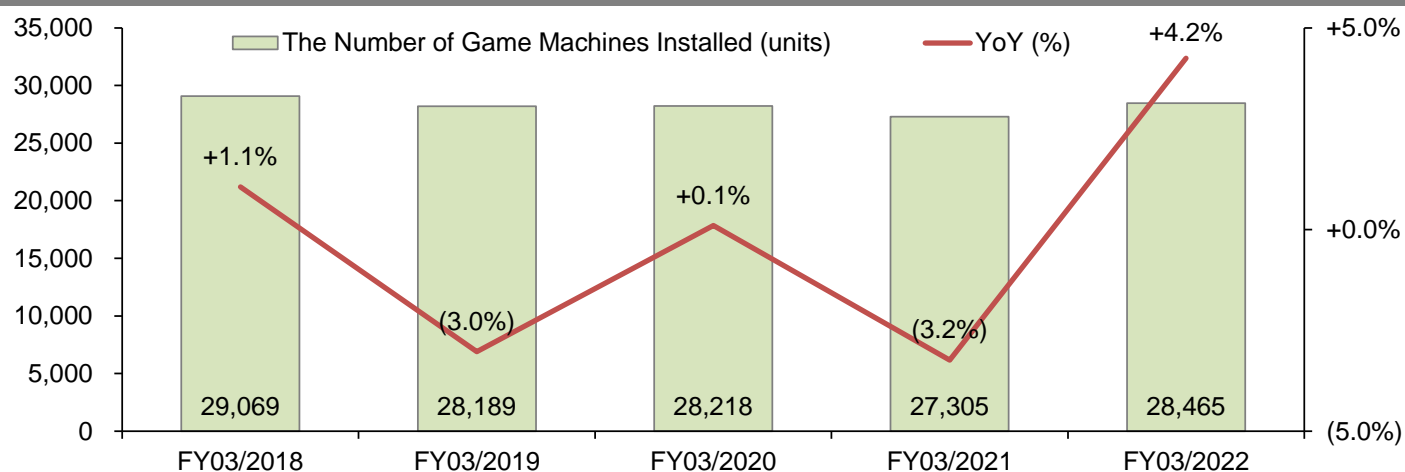
It appears that NIRAKU Koriyama-Omachi Hall (Koriyama-city, Fukushima-prefecture) has substantially contributed to a recovery in revenue for the Company as a whole for FY03/2022. In addition to its favorable location, the Company says that it benefits from a factor to be able to utilize own strengths in various aspects here. In the first place, it is also said that it is advantageous that the hall has a large size in the number of gaming machines installed. For the sake of newly open NIRAKU Koriyama-Omachi Hall (Koriyama-city, Fukushima-prefecture), the Company used a method of “inuki” or that of carrying out acquisition of hall run by trade with its all furnishings of the existing premises, including interior decorating, equipment, etc. with no restoration to original state, having resulted in acquisition of both premises and land in this case. According to the Company, this method is highly regarded in a respect that it requires initial costs less than newly setting up halls which needs to incur expenses on design and construction.

For FY03/2021, meanwhile, it was requested by local governments to refrain from operating pachinko & pachislot halls, following the issuance of the Declaration of Emergencies (7 April to 25 May 2020) on the occasion of prevailing impact of Corona crisis. The Company, which was responding sincerely to this, was progressing a series of suspensions for the operations of the halls. Following the fact, the lost time rate in April was slightly less than 50% in terms of the number of days and slightly less than 60% in May, according to the Company. In terms of the level of revenue, the Company says that it saw no more than 25% or so of the same months of the previous year for April and May. On the other hand, the operations across the board have been gradually resumed since around the end of May, i.e., after the lifting of the Declaration.

In light of the situations after resuming, however, the Company had noticed that some of the halls were likely to see only a limited recovery in revenue for the future (not fulfilling a condition to recover up to some 75% to 80% of the level in FY03/2020, when the impact of Corona crisis is not supposed to have prevailed), having had resulted in an implementation of bold and strategic measure for the sake of reallocating management resources looking to the advent of post-Corona situations in the near future or having had closed down no less than six halls on top of one hall of “constructive closedown” for FY03/2021.

Following the resuming of operations at all the halls around the end of May 2020, the Company suspended operations of collective six halls whose prospective recovery in revenue was unfavorable, on 29 June 2020, with a view to closing them down in the near future. In fact, the Company did close down four of them on 1 October 2020, comprising 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). Meanwhile, the Company closed down NIRAKU Umeyashiki Second Hall (Ota-ku, Tokyo) for transfer in December 2020, while having had closed down NIRAKU Shibukawa-Arima Hall (Shibukawa-city, Gunma-prefecture) in the same month.

The Number of Gaming Machines (Pachinko & Pachislot) Installed



NIRAKU Hitachino-Ushiku Hall

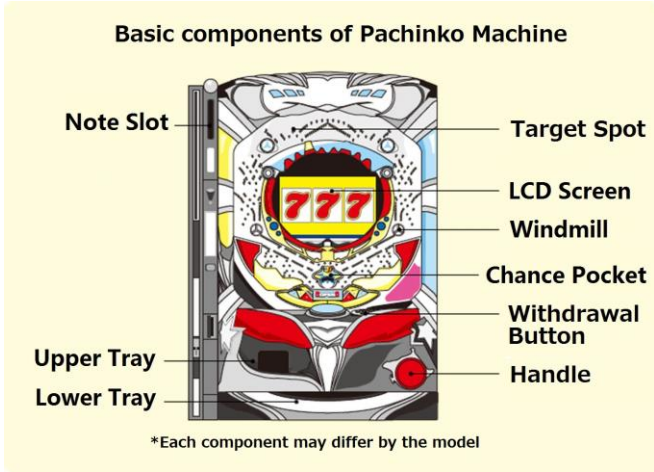
NIRAKU Gyoda-Mochida Hall



Source: Company Data

For FY03/2021, the number of operating halls with the Company saw net decrease by no less than six as a result of the above-mentioned new opening and closures, which have had led to decrease for the number of gaming machines (pachinko & pachislot) installed for the Company as a whole at the same time, but the number has recovered for FY03/2022. On 11 February 2022, the Company newly opened NIRAKU Hitachino-Ushiku Hall (Ushiku-city, Ibaraki-prefecture / the number of gaming machines installed of 656 units, comprising pachinko of 420 units and pachislot of 236 units), which was followed by another one of NIRAKU Gyoda-Mochida Hall (Gyoda-city, Saitama-prefecture / 504 units comprising 360 units and 144 units, respectively) on 25 March 2022, having increased the number of gaming machines (pachinko & pachislot) to a corresponding extent for the Company as a whole. Meanwhile, the Company newly opened both of them through acquisition of hall run by trade with all its furnishings as found in the case of NIRAKU Koriyama-Omachi Hall (Koriyama-city, Fukushima-prefecture). In this case, the Company acquired land and premises versus premises only for both of them (and the land is leased).

Pachinko Machine (basic configuration)



Pachinko Machines Installed



Inside of Hall



General Prizes



Source: Company Data

The number of operating pachinko & pachislot halls in Japan is said to have peaked at 18,244 in 1995, while having declined to no more than 8,139 in December 2021, according to the aforementioned data from Yano Research Institute Ltd., having shrunk down to a level less than half the peak. In Japan, the population continues to decline gradually, while diversification of entertainment is progressing, which inevitably leads to a continuous shrinkage for the size of the market related to Pachinko & Pachislot Hall Operations belonging to the existing domain. Meanwhile, it is becoming increasingly difficult to install gaming machines with a high level of gambling appeal due to the implementation of revisions to machine standards to curb gambling appeal, which is cited also as a factor behind the decline in the size of the market. On top of this, the same applies to an issue that the standards are becoming increasingly stricter than before for advertising that may whet one's appetite for gambling due to the enforcement of the Basic Law on Measures Against Gambling Addiction.

Going forward, however, the Company is looking to an opportunity for the market to be revitalized on the occasion of so-called next-generation smart gaming machines (pachinko & pachislot) being launched. With respect to “smart pachinko,” scheduled to be launched sometime in March 2023, the Company suggests that the pachinko balls are to circulate within the machines, while it will not be needed any more to use medals for “smart slot,” scheduled to be launched sometime in November 2022. In other words, customers visiting the halls will have no further necessities to be directly in touch with the balls nor the medals, with such new features, being able to benefit from clean gaming environment, according to the Company. On top of this, the Company also suggests that the machines will have improved functionalities with respect to both. Meanwhile, from a perspective of operations of the halls, the Company will have no further necessities to provide services associated with the balls and the medals, cutting back on expenses to a corresponding extent. By the way, the framework to provide all those machines on a full-fledged basis has not yet established, inevitably due to shortage of semiconductors and other factors, which may delay the above-mentioned timing of the launches.

NIRAKU Corporation (100% subsidiary) / Operations of Hotel and Eating & Drinking Establishments

In addition to the above-mentioned Pachinko & Pachislot Hall Operations, NIRAKU Corporation also runs operations of hotel and eating & drinking establishments. In July 1979, NIRAKU Corporation newly opened Koriyama City Hotel, a business hotel with basic amenities, which is located in front of JR Koriyama Station in Koriyama-city, Fukushima-prefecture, where the Company is based, while having 11 floors with a total floor space of 2,944 square meters and/or 84 guest rooms.

Koriyama City Hotel	“LIZARRAN” Spanish bar-restaurant	
	 <p data-bbox="710 1552 852 1585" style="text-align: center;">Shimbashi</p>	 <p data-bbox="1171 1552 1326 1585" style="text-align: center;">Sangenjaya</p>

Source: Company Data

Meanwhile, in October 2014, NIRAKU Corporation newly opened a “LIZARRAN” Spanish bar-restaurant through a franchising contract with Comess Group De Restauración S.K. (the Comess Group), while currently running operations for two of them based in Shimbashi and Sangenjaya. The one based in Takadanobaba, newly opened in March 2019, was closed down in June 2022.

Komeda's Coffee Shop



NIRAKU Kazo-Atago Hall



NIRAKU Iruma-Shinko Hall

Source: Company Data

Further, in June 2018, NIRAKU Corporation entered into a franchising contract with Komeda Co., Ltd., which runs the chain of Komeda's Coffee Shop, a full-service coffee shop originated in Nagoya, having newly opened the first one on the premises of NIRAKU Kazo-Atago Hall (Kazo-city, Saitama-prefecture), a pachinko & pachislot hall operated by the Company. Then, this was followed by the second one on the premises of NIRAKU Iruma-Shinko Hall (Iruma-city, Saitama-prefecture) in January 2019.

Gong Cha



Source: Company Data

Finally, in November 2021, NIRAKU Corporation entered into a franchising contract with Gong Cha Japan LTD., expanding the Gong Cha chain to provide Gong Cha (global tea brand) originally from Taiwan, having newly opened a shop of Gong Cha S-PAL Sendai II (Sendai-city, Miyagi-prefecture) and another one of Gong Cha Odakyu Tama Center (Tama-city, Tokyo).

NIRAKU Corporation (100% subsidiary) / Subsidiaries (the Company's second-generation subsidiaries)

NIRAKU Corporation runs NIRAKU MERRIST CORPORATION and Ocube INC. as 100% subsidiaries (the Company's second-generation subsidiaries). The former runs operations to improve employment conditions for people with disabilities, while the latter runs operations of temporary staffing, staff agency and human resources consulting services, including all those operations to develop a second career for NIRAKU Corporation employees.

NEXIA INC. (100% subsidiary)

NEXIA INC. runs operations to own real estate comprising land & building of pachinko & pachislot halls operated by NIRAKU Corporation, office buildings & condominiums for third-party rental, etc. as well as implement investment associated with them.

NGCH Hong Kong Limited (100% subsidiary)

NGCH Hong Kong Limited was established as a bridgehead for business developments in ex-Japan Asia, holding a 51% stake in NPJ Hong Kong Limited (the Company's second-generation subsidiary). Meanwhile, NPJ Hong Kong Limited holds a 100% stake in NPJ China YOKOCHO Co., Ltd. (subsidiary of the Company's second-generation subsidiary), with which the Company started up operations of running Japanese-style food court based on the concept of YOKOCHO at Shenzhen Upper Hills, an urban complex commercial facility located in Shenzhen, China, on 20 June 2019.

Prior to the startup of the operations here, the Company had to see some initial investment, having had suffered from loss to a corresponding extent for FY03/2019. Meanwhile, after the startup, the operations were forced to suffer from customer attraction situation lower than anticipated, which was followed by the impact of prevailing Corona crisis, having had led to a suspension for the operations since February 2020. Then, the operations were resumed in August 2021, but the impact of the zero-Covid policy by the local government has become larger recently and it is too early to dispel any uncertainty for the future, according to the Company.

Dream Games Singapore Pte. Ltd, (100% subsidiary)

Dream Games Singapore Pte. Ltd. runs three 100% subsidiaries (the Company's second-generation subsidiaries), i.e., Dream Games (Japan) Co., Ltd., Dream Games Vietnam Co, Ltd. and Dream Games Cambodia Co., Ltd., while developing operations of Japanese-style amusement arcades in Vietnam and Cambodia through them. As of the end of FY03/2022, the Company had the operations in 9 locations in Vietnam and two for Cambodia. Meanwhile, it was 20 November 2017, when the Company acquired all the shares outstanding of Dream Games Singapore Pte. Ltd. as the first step for aiming to shift to “comprehensive entertainment company” as well as promoting “globalization of business portfolio”.

Amusement Arcade of Tan Phu Celadon (Ho Chi Minh-city)



Source: Company Data

For FY03/2022, the impact of Corona crisis was substantial in Vietnam and Cambodia, having had resulted in a situation that the actual operations were almost always suspended in all the locations. Given a situation like this, the Company had decided to write off goodwill generated by the above-mentioned acquisition, having done so in fact. On the other hand, the government of Cambodia has rather relaxed its Corona policy since the beginning of FY03/2023, which was followed by the equivalent with the government of Vietnam. Consequently, the operations at all the locations have been resumed for a while to date, having started to see a major recovery in the number of customers visiting the locations.

5.0 Financial Statements

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income (Million Yen)	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	Cons.Act FY 03/2021	Cons.Act FY 03/2022	YoY Net Chg.
Revenue	26,554	28,325	28,046	18,541	22,209	+3,668
Other income	606	551	1,074	639	645	+6
Other gains / losses, net	121	54	400	173	1,536	+1,363
Impairment loss on property, plant and equipment	-	-	(213)	(2,949)	(168)	+2,781
Impairment loss on right-of-use assets	-	-	(463)	(2,643)	(759)	+1,884
Impairment loss on intangible assets	-	-	-	(204)	(1,077)	(873)
Hall operating expenses	(22,640)	(22,875)	(21,234)	(17,367)	(18,279)	(912)
Administrative & other operating expenses	(3,918)	(4,502)	(5,655)	(3,393)	(3,246)	+147
Operating profit	723	1,553	1,955	(7,203)	861	+8,064
Finance costs, net	(510)	(455)	(1,374)	(1,299)	(1,032)	+267
Share of results of an associate	-	(5)	-	-	-	-
Profit before income tax	213	1,093	581	(8,502)	(171)	+8,331
Income tax expense	(273)	(549)	(717)	2,898	(1,016)	(3,914)
Profit for the year	(60)	544	(136)	(5,604)	(1,187)	+4,417
Profit attributable to owners of the Company	(15)	610	179	(5,481)	(1,181)	+4,300
Profit attributable to non-controlling interest	(45)	(66)	(315)	(123)	(6)	+117
Other net comprehensive income	(272)	70	(286)	11	2	(9)
Total comprehensive net income for the year	(332)	614	(422)	(5,593)	(1,185)	+4,408
Revenue YoY	(9.0%)	+6.7%	(1.0%)	(33.9%)	+19.8%	-
Operating profit YoY	(49.5%)	+114.8%	+25.9%	-	-	-
Profit before income tax YoY	(76.4%)	+413.1%	(46.8%)	-	-	-
Profit attributable to owners of the Company YoY	-	-	(70.7%)	-	-	-
Hall operating expenses / Revenue	(85.3%)	(80.8%)	(75.7%)	(93.7%)	(82.3%)	+11.4%
Administrative and other operating expenses / Revenue	(14.8%)	(15.9%)	(20.2%)	(18.3%)	(14.6%)	+3.7%
Operating profit margin	2.7%	5.5%	7.0%	(38.8%)	3.9%	+42.7%
Profit before income tax margin	0.8%	3.9%	2.1%	(45.9%)	(0.8%)	+45.1%
Profit for the year margin	(0.2%)	1.9%	(0.5%)	(30.2%)	(5.3%)	+24.9%
Profit before income tax / Income tax expense	(128.2%)	(50.2%)	(123.4%)	-	-	-

Source: Company Data, WRJ Calculation

Segmented Information

Segmented Information	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	Cons.Act FY 03/2021	Cons.Act FY 03/2022	YoY Net Chg.
(Million Yen)						
Pachinko & Pachislot Hall Operations	25,799	26,388	25,487	17,218	21,432	+4,214
Amusement Arcade Operations	417	1,535	1,663	1,015	359	(656)
Restaurant Operations	-	-	304	-	107	+107
Other Operations	338	402	592	308	311	+3
Revenue	26,554	28,325	28,046	18,541	22,209	+3,668
Pachinko & Pachislot Hall Operations	(10.9%)	+2.3%	(3.4%)	(32.4%)	+24.5%	-
Amusement Arcade Operations	-	+268.1%	+8.3%	(39.0%)	(64.6%)	-
Restaurant Operations	-	-	-	-	-	-
Other Operations	+53.6%	+18.9%	+47.3%	(48.0%)	+1.0%	-
Revenue (YoY)	(9.0%)	+6.7%	(1.0%)	(33.9%)	+19.8%	-
Pachinko & Pachislot Hall Operations	97.2%	93.2%	90.9%	92.9%	96.5%	-
Amusement Arcade Operations	1.6%	5.4%	5.9%	5.5%	1.6%	-
Restaurant Operations	-	-	1.1%	-	0.5%	-
Other Operations	1.3%	1.4%	2.1%	1.7%	1.4%	-
Revenue (compstion ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-
Pachinko & Pachislot Hall Operations	1,223	2,314	2,438	(6,493)	3,784	+10,277
Amusement Arcade Operations	(74)	153	56	(308)	(330)	(22)
Restaurant Operations	-	(92)	(597)	(260)	(264)	(4)
Other Operations	(213)	(145)	(493)	(506)	(188)	+318
Segment profit	936	2,230	1,404	(7,567)	3,002	+10,569
Corporate expenses	(723)	(1,132)	(823)	(935)	(3,173)	(2,238)
Share of results of an associate	-	(5)	-	-	-	-
Profit before income tax	213	1,093	581	(8,502)	(171)	+8,331
Pachinko & Pachislot Hall Operations	4.7%	8.8%	9.6%	(37.7%)	17.7%	+55.4%
Amusement Arcade Operations	(17.7%)	10.0%	3.4%	(30.3%)	(91.9%)	(61.6%)
Restaurant Operations	-	-	(196.4%)	-	(246.7%)	-
Other Operations	(63.0%)	(36.1%)	(83.3%)	(164.3%)	(60.5%)	+103.8%
Segment profit margin	3.5%	7.9%	5.0%	(40.8%)	13.5%	+54.3%
Corporate expenses	(2.7%)	(4.0%)	(2.9%)	(5.0%)	(14.3%)	(9.2%)
Share of results of an associate	-	(0.0%)	-	-	-	-
Profit before income tax	0.8%	3.9%	2.1%	(45.9%)	(0.8%)	+45.1%

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.
	03/2018	03/2019	03/2020	03/2021	03/2022	
Gross pay-ins	138,493	141,731	139,053	94,414	108,075	+13,661
Less: gross pay-outs	113,230	115,850	114,046	77,531	86,999	+9,468
Revenue from pachinko and pachislot hall business	25,263	25,881	25,007	16,883	21,076	+4,193
Revenue from amusement arcades	417	1,535	1,663	1,015	359	(656)
Vending machine income	536	507	480	335	356	+21
Revenue from hotel operations	158	132	143	55	39	(16)
Revenue from restaurant operations	180	270	753	253	379	+126
Revenue	26,554	28,325	28,046	18,541	22,209	+3,668
Gross pay-ins	(3.2%)	+2.3%	(1.9%)	(32.1%)	+14.5%	-
Less: gross pay-outs	(1.3%)	+2.3%	(1.6%)	(32.0%)	+12.2%	-
Revenue from pachinko and pachislot hall business	(11.0%)	+2.4%	(3.4%)	(32.5%)	+24.8%	-
Revenue from amusement arcades	-	+268.1%	+8.3%	(39.0%)	(64.6%)	-
Vending machine income	(5.0%)	(5.4%)	(5.3%)	(30.2%)	+6.3%	-
Revenue from hotel operations	+21.5%	(16.5%)	+8.3%	(61.5%)	(29.1%)	-
Revenue from restaurant operations	+100.0%	+50.0%	+178.9%	(66.4%)	+49.8%	-
Revenue (YoY)	(9.0%)	+6.7%	(1.0%)	(33.9%)	+19.8%	-

Source: Company Data, WRJ Calculation

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position						
	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	FY	FY	FY	FY	FY	
(Million Yen)	03/2018	03/2019	03/2020	03/2021	03/2022	Net Chg.
Property, plant and equipment	26,207	28,523	22,257	18,581	17,754	(827)
Right-of-use assets	-	-	32,072	27,949	26,193	(1,756)
Investment properties	662	650	630	737	714	(23)
Intangible assets	1,571	1,662	1,601	1,400	361	(1,039)
Prepayments, deposits and other receivables	3,751	4,208	5,119	4,545	4,319	(226)
Financial assets at fair value through profit or loss	52	100	-	-	-	-
FAs at fair value through other comprehensive income	953	911	565	577	605	+28
Deferred income tax assets	1,565	1,588	2,822	5,765	5,342	(423)
Long-term bank deposits	47	-	-	-	-	-
Non-current assets	34,808	37,642	65,066	59,554	55,288	(4,266)
Inventories	57	109	40	21	44	+23
Trade receivables	57	53	48	64	74	+10
Prepayments, deposits and other receivables	1,312	1,020	1,026	1,327	1,096	(231)
Current income tax recoverable	300	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	100	106	105	(1)
Current income tax recoverable	-	-	-	474	-	(474)
Bank deposits with maturity over three months	43	43	750	42	242	+200
Cash and cash equivalents	15,594	15,176	14,128	15,903	11,451	(4,452)
Current assets	17,363	16,401	16,092	17,937	13,012	(4,925)
Total assets	52,171	54,043	81,158	77,491	68,300	(9,191)
Share capital	3,000	3,000	3,000	3,000	3,000	0
Reserves	24,176	24,617	23,220	17,762	16,630	(1,132)
Non-controlling interest	(40)	(106)	(421)	(556)	(609)	(53)
Total equity	27,136	27,511	25,799	20,206	19,021	(1,185)
Borrowings	10,854	11,792	9,853	738	6,939	+6,201
Lease liabilities	3,247	2,717	32,035	30,534	28,090	(2,444)
Provisions and other payables	2,111	2,226	2,270	2,192	2,244	+52
Derivative financial instruments	8	27	22	16	9	(7)
Non-current liabilities	16,220	16,762	44,180	33,480	37,282	+3,802
Trade payables	247	294	114	108	108	0
Borrowings	3,886	4,290	3,233	15,929	4,702	(11,227)
Lease liabilities	888	703	2,542	2,906	2,599	(307)
Accruals, provisions and other payables	3,793	4,353	4,404	4,131	4,244	+113
Derivative financial instruments	1	4	4	3	2	(1)
Current income tax liabilities	-	126	882	728	342	(386)
Current liabilities	8,815	9,770	11,179	23,805	11,997	(11,808)
Total liabilities	25,035	26,532	55,359	57,285	49,279	(8,006)
Total equity and liabilities	52,171	54,043	81,158	77,491	68,300	(9,191)
Interest bearing debt	18,875	19,502	47,663	50,107	42,330	(7,777)
Net debt	3,238	4,283	32,785	34,162	30,637	(3,525)
Equity ratio	52.0%	50.9%	31.8%	26.1%	27.8%	-
Net debt equity ratio	11.9%	15.6%	127.1%	169.1%	161.1%	-
ROE (12 months)	(0.1%)	2.2%	0.7%	(23.8%)	(6.0%)	-
ROA (12 months)	0.4%	2.1%	0.9%	(10.7%)	(0.2%)	-
Quick ratio	178%	156%	134%	67%	98%	-
Current ratio	197%	168%	144%	75%	108%	-

Source: Company Data, WRJ Calculation

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows (Million Yen)	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	Cons.Act FY 03/2021	Cons.Act FY 03/2022	YoY Net Chg.
Cash flows from operating activities	2,950	4,565	5,470	2,723	5,389	+2,666
Cash flows from investing activities	(2,698)	(4,986)	(165)	(658)	(863)	(205)
Free cash flows	252	(421)	5,305	2,065	4,526	+2,461
Cash flows from financing activities	1,942	6	(6,342)	(277)	(8,932)	(8,655)

Source: Company Data, WRJ Calculation

Per Share Data

Per Share Data (Before Adjustments for Split) (Yen)	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	Cons.Act FY 03/2021	Cons.Act FY 03/2022	YoY Net Chg.
No. of shares FY end (million shares)	1,196	1,196	1,196	1,196	1,196	-
Earnings per share	(0.013)	0.510	0.150	(4.580)	(0.990)	-
Dividend per share	0.12	0.15	0.10	0.00	0.40	-
Payout ratio	-	29.4%	66.7%	-	-	-
Per Share Data (After Adjustments for Split) (Yen)	Cons.Act FY 03/2018	Cons.Act FY 03/2019	Cons.Act FY 03/2020	Cons.Act FY 03/2021	Cons.Act FY 03/2022	YoY Net Chg.
Share split factor	1	1	1	1	1	-
Earnings per share	(0.013)	0.510	0.150	(4.580)	(0.990)	-
Dividend per share	0.12	0.15	0.10	0.00	0.40	-

Source: Company Data, WRJ Calculation

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.

Company name: Walden Research Japan Incorporated

Head office: Level 4 Ginza Ishii Building, 6-14-8 Ginza Chuo-ku Tokyo 104-0061, JAPAN

URL: <https://walden.co.jp/>

E-mail: info@walden.co.jp

Tel: 81-(0)3-3553-3769