

**NIRAKU GC HOLDINGS INCORPORATED:
NOT FOR THE FAINT OF HEART**

The Global Offering of Niraku GC Holdings Incorporated (■■■) (Code: 1245, Main Board, The Stock Exchange of Hongkong Ltd) raises the principal question, as far as **TARGET** () is concerned:

For what reason did this Japanese company make the decision to come to the premier equity market of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) in order to raise a rather modest amount money instead of knocking on the door of The Tokyo Stock Exchange? After all, The Tokyo Stock Exchange is the third-largest bourse in the world, having in excess of 2,300 listed companies, those 2,300 companies, having a market capitalisation of more than \$US4.50 trillion (about \$HK35 trillion).

Niraku GC Holdings only has operations in Japan and, in point of fact, it is highly unlikely that it could operate anywhere else in the world, at least, not with any material success.

The business of this Company is explained at Page 195 of the Global Offering Prospectus, dated March 24, 2015:

'We operate pachinko halls in Japan where customers can play pachinko and pachislot, which are recreational arcade games characterised by an element of chance. We were the fourth largest pachinko hall operator in Japan in 2013 (based on gross pay-ins), according to EBI (Entertainment Business Institute []). The pachinko industry is highly fragmented, with over 3,800 operators running 11,893 halls as at 31 December 2013. In 2013, our market share based on gross pay-ins was 1.3%, while our market share based on the number of halls in Japan was 0.5%. Ever since we opened our first pachinko hall in 1950, all our operations have been focused in Northeast Honshu (), Japan, covering ten prefectures that have a total population of approximately 47.4 million (representing 37.7% of the total population in Japan), as at 31 December 2013, according to EBI.*

'Pachinko is one of the most popular forms of entertainment for adults in Japan and has a long history, dating back to the early twentieth century. Pachinko is similar in appearance to a pinball machine and is played by firing pachinko balls in rapid succession into a playing field, with the aim of firing them into designated pockets that release bonus pachinko balls. Playing costs range from ¥0.5 to ¥4 per ball (before consumption tax). Pachislot is similar in appearance to a traditional slot machine and is played by inserting pachislot tokens to spin its image reels, with the aim of stopping the reels at a winning matching combination, which will release bonus pachislot tokens. Playing costs range from ¥2 to ¥20 per token (before consumption tax).

'Generally, players aim to collect the most number of balls and tokens, which can either be saved for subsequent visits, or more notably, exchanged for prizes. At our halls, customers can exchange two types of prizes, namely: (1) general prizes (including our private brand products), which are generally the types of goods sold in convenience stores, including cigarettes, food and snacks, household goods and drinks; and (2) G-prizes, which are

decorative cards with a small embedded piece of metal (such as gold) or coin-shaped pendants of metal (such as gold), that can be subsequently sold by customers to independent G-prize buyers for cash. Our Japan Legal Adviser has confirmed that our pachinko and pachislot hall operations do not constitute “gambling” under, and do not violate, the Penal Code.’

* The term, ‘gross pay-ins’, is defined in the Global Offering Prospectus as: The amount of money, received from customers for rental pachinko balls and pachislot tokens.

Page 195 of the Global Offering Prospectus goes on to explain that the Company’s primary focus is in the operations of suburban Pachinko and Pachislot halls, representing more than 90 percent of total revenue in respect of the 42 months, ended September 30, 2014.

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