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Web Proof Information Pack of

株式会社ダイナムジャパンホールディングス
DYNAM JAPAN HOLDINGS Co., Ltd.*

(incorporated in Japan with limited liability)

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SUMMARY AND HIGHLIGHTS

OVERVIEW

We are the second largest pachinko hall operator in Japan based on the total value of pachinko balls and pachislot tokens rented in 2010 and the largest in terms of number of halls according to Yano Research. We have 45 years of experience in the pachinko industry, and have built our pachinko operations from two halls in one prefecture to 355 halls in 46 out of 47 prefectures in Japan as at 31 March 2012. Pachinko is one of the most popular forms of entertainment in Japan, comprising a ¥19.4 trillion (equivalent to approximately HK$1.8 trillion) industry that accounted for approximately 28.6% of Japan's entertainment market in 2010.

Our Business

Games

Our pachinko halls provide a venue for customers to play two types of games: pachinko and pachislot. Pachinko is similar to a vertical pinball machine and is played by firing small metal pachinko balls in rapid succession into the playing field of the machine and into pockets which trigger the release of more pachinko balls. Playing costs generally range from 0.5 yen to 4 yen per ball. Pachislot is similar to casino slot machines, and is played by spinning the reels on the machine, then stopping them so that the pictures on each reel match, which triggers the release of pachislot tokens. Playing costs generally range from 5 yen to 20 yen per token. Customers rent pachinko balls and pachislot tokens to play the games, and the balls or tokens won can be either exchanged for prizes or saved for subsequent visits.

Prizes

Consistent with industry practice, we offer both general prizes, which are generally the types of goods sold in convenience stores, such as snacks, drinks and cigarettes, as well as "G-prizes", which are decorative cards with a small embedded piece of gold or silver or coin-shaped pendants of gold or silver. Players who opt to claim G-prizes in exchange for the pachinko balls and pachislot tokens won during play may sell their G-prizes to an independent prize buyer for cash outside of the pachinko hall.

Halls and Chain Store Management

We have focused on promoting the entertainment, instead of gaming, aspect of pachinko. We operate three types of halls, which offer various mixes of pachinko and pachislot games with different playing costs:

- ***Traditional*** halls feature a greater proportion of high playing cost games, and allow smoking inside the halls. As at 31 March 2012, we operated 176 traditional halls.

- ***Yuttari Kan*** halls offer primarily low playing cost games with a wider variety of general prizes, and generally allow smoking. As at 31 March 2012, we operated 135 *Yuttari Kan* halls.

- ***Shinrai no Mori*** halls also feature primarily low playing cost games with a wider variety of general prizes, and include additional features such as a general prohibition on smoking with designated closed-off smoking areas, and the addition of a "relaxation space" in which customers can socialise. As at 31 March 2012, we operated 44 *Shinrai no Mori* halls.

SUMMARY AND HIGHLIGHTS

We were among the first pachinko hall operators to promote the entertainment, instead of gaming, aspect of pachinko when we introduced low playing cost machines to our halls in 2006. We believe that our development of low playing cost pachinko is key to our continued success in the industry, as this strategy has allowed us to reach out to a broader and previously untapped customer base stemming from a growing trend towards playing pachinko for recreation in addition to winning prizes. This strategy also involves planned geographical expansion to continue to target players in rural/suburban areas.

We utilise a chain-store management strategy whereby the branding, construction, management, and operation of our pachinko halls, as well as the procurement of machines, are standardised to enhance operational efficiency.

Our Machine Procurement Strategy

As a pachinko hall operator, the primary way in which we attract customers is by frequently updating the pachinko and pachislot machines in our halls. The following procurement strategies enable us to keep pace with changing customer preferences and industry trends while achieving significant cost savings:

- ***Established relationships with leading machine suppliers***, allowing us to obtain popular new machines early and at competitive prices.

- ***Centralised network of 13 distribution centres*** located throughout Japan, allowing us to control the quality and compliance of machines that we purchase.

- ***Sourcing from within our own network of pachinko halls***, reallocating and rotating machines in response to regional trends.

- ***Development of "private brand" machines***, offering carefully developed machine features and specifications based on information collected from our membership and IT systems in order to tailor our machines to customer preferences and market trends.

Our Industry

Over the last six decades, pachinko has come to represent an integral part of Japanese culture, with approximately 16.7 million players in 2010. The pachinko industry in Japan is highly fragmented, with over 4,000 operators, and is characterised by a large number of smaller operators and a small number of large operators. As one of only three hall operators with over 100 halls, this competitive landscape presents us with opportunities to leverage our economies of scale to further extend the geographic reach of our operations and grow our business.

Our Regulatory Framework

The pachinko industry is highly regulated, and we as a pachinko operator are subject to various requirements and restrictions under Japanese law and a high degree of oversight by various Japanese regulatory authorities. In particular, the Amusement Business Law prohibits pachinko hall operators from being involved in the exchange of prizes for cash or securities by either providing cash or securities as prizes or by repurchasing from customers the prizes provided to them. In order to ensure compliance with the Amusement Business Law, the pachinko industry operates in accordance with what is commonly referred to as the "Three Party System", which requires independence among the pachinko hall operators, prize buyers and G-prize wholesalers in the pachinko industry.

We are also regulated under Amusement Business Law with respect to our machines, including restrictions on:

- payout ratios;
- the value of pachinko balls or pachislot tokens that may be put into play per minute;
- the total number of pachinko balls or pachislot tokens that may be released in various modes, or over a continuous period, of play; and
- adjustments to the settings of the machines once installed in our halls.

We are also subject to Japanese law and regulations that require pachinko operators to obtain operating licenses and impose various operating requirements on pachinko halls and pachinko and pachislot machines, as well as other Japanese law and regulations applicable to Japanese companies generally, such as those relating to corporate governance, taxation and labour.

Our Anti-Money Laundering Procedures, Systems and Controls

Because there are strict regulations and mechanical limitations with respect to the number of pachinko balls or pachislot tokens that can be played as well as released by machines, we believe that money laundering is generally not a concern in the pachinko industry. Furthermore, there are currently no anti-money laundering laws or regulations in Japan that are specifically applicable to the pachinko industry. Nevertheless, we have put in place various measures and policies designed to detect and prevent money laundering activities in our pachinko operations, including developing an AML manual, employing various internal controls and procedures designed to help ensure that our pachinko operations are conducted in a professional manner and in compliance with applicable laws and regulations in Japan, and setting up a "whistleblowing" telephone hotline that enables all of our officers, employees and their relatives to report irregularities or suspected fraud to management. Our internal audit departments, which operate independently from all other operational departments, conduct hall and department operational audits and periodic reviews and testing of our compliance with, and effectiveness of, our AML measures.

We have also implemented measures in our pachinko operations to prevent and detect potential fraud, cheating or counterfeiting activities. These measures are primarily carried out by our hall operations staff with the cooperation of our internal audit team, and include stringent controls and procedures with respect to the handling of cash and G-prizes. In addition, our headquarters closely monitors hall activity through regular and frequent collection and analysis of operational information by our IT systems.

COMPETITIVE STRENGTHS

We believe that we have a number of key strengths that differentiate our business from that of our competitors, including the following:

- we operate a nationwide network, and are able to benefit from economies of scale and an expansive geographic reach;
- we operate a comprehensive range of pachinko halls covering a broad and diverse customer base;

- we have implemented an effective management structure and sophisticated information technology systems which enable us to anticipate and respond quickly to regional changes and trends in customer preferences; and

- we have an experienced and well-qualified management team with a proven track record in operating pachinko halls.

BUSINESS STRATEGIES

We seek to maintain our position as an industry leader and further grow our business by implementing the following strategies:

- we will continue to promote the entertainment aspect of pachinko while maintaining our three distinct brands in order to further expand and broaden our customer base;

- we will continue to strategically expand our pachinko operations;

- we will increase our focus on customer satisfaction and goodwill;

- we will increase our market visibility with far-reaching advertising and promotional efforts;

- we will continue to utilise our chain-store management strategy to achieve greater cost savings; and

- we will continue to invest in our information technology system, which plays an important supporting role to our daily pachinko operations and will become increasingly important as we expand our business operations in the future.

RISK FACTORS

There are certain risks involved in our operations and investment in our Shares, and many of these risks are beyond our control. These risks are described in the section headed "Risk Factors" and include the following.

Risks Relating to G-prize Wholesalers and Prize Buyers

- Our ability to operate our business is dependent upon the services provided by G-prize wholesalers and prize buyers.

- We may be adversely affected by any breach by the G-prize wholesalers or prize buyers of the independence requirements adopted under the Three Party System.

Risks Relating to Differences in Shareholder Rights under Japanese Law

- You may face difficulties in protecting your interests because we are incorporated under the laws of Japan and these laws may provide different rights to Shareholders than the laws of other jurisdictions.

- Our Group and holders of our Shares may be subject to certain Japanese law and regulations relating to taxation that may be different from those under the laws of Hong Kong, including in particular those relating to the taxation of dividends.

Risks Relating to our Business and Industry

- We face intense competition in Japan.
- Our strategy of broadening the demographic appeal of pachinko may not be successful.
- We rely heavily on our information technology systems, and if these systems are impaired or interrupted, our operations may be seriously disrupted.
- Our business may be affected by downturns in the economy, economic uncertainty and other factors affecting discretionary consumer spending.
- We depend on the continued service of key management personnel. If we fail to retain our key management personnel, our business may suffer.
- If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud.
- Regulatory or governmental policies, or interpretations of such policies, that affect the pachinko industry in Japan could change.
- Because no Japanese law explicitly and directly addresses the legality of the Three Party System on which the pachinko industry is based, there are legal uncertainties with respect to the operation of our business under the Three Party System.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since 31 March 2012 (being the date to which our latest combined financial information was prepared, as set out in the Accountants' Report in Appendix I to this document) and up to the date of this document.

FINANCIAL INFORMATION

The following tables set forth a summary of our combined income statement data and combined statement of financial position data, derived from our audited combined financial statements and related notes thereto set out in Appendix I — Accountants' Report, which has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. These financial statements and information relate to historical results of operations and financial positions of our business.

For the purpose of illustration only and unless otherwise specified in this document, certain amounts denominated in Japanese yen are translated into Hong Kong dollars at the rate of ¥10.64 to HK$1.00, which was the exchange rate prevailing on 30 March 2012 (i.e. the last business day during the Relevant Period). No representation is made that the Japanese yen amounts could have been, or could be, converted into Hong Kong dollars, or vice versa, at such rates or at any other rates on such date or on any other dates.

SUMMARY AND HIGHLIGHTS

Combined income statement data	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Gross pay-ins	862,023	859,882	908,309	85,368
Less: gross payouts	(696,562)	(690,245)	(743,231)	(69,853)
Revenue	165,461	169,637	165,078	15,515
Other income	6,898	6,962	6,572	617
Hall operating expenses[1]	(134,787)	(144,239)	(138,785)	(13,043)
General and administrative expenses	(642)	(934)	(1,754)	(164)
Other operating expenses	(1,188)	(813)	(874)	(81)
Profit from operations	35,742	30,613	30,237	2,844
Finance costs	(2,442)	(2,137)	(1,833)	(172)
Profit before tax	33,300	28,476	28,404	2,672
Income tax expenses	(13,086)	(12,285)	(12,506)	(1,175)
Profit for the year attributable to owners of the Company	20,214	16,191	15,898	1,497

Combined statement of financial position data	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Property, plant and equipment	101,191	98,004	95,033	8,931
Bank and cash balances	22,087	17,460	28,524	2,681
Other current and non-current assets	43,680	51,463	32,904	3,096
Total assets	166,958	166,927	156,461	14,708
Short-term borrowings	26,335	15,439	1,654	155
Long-term borrowings	27,934	22,578	21,583	2,029
Other current and non-current liabilities	40,760	43,540	39,750	3,738
Total liabilities	95,029	81,557	62,987	5,922
Total equity	71,929	85,370	93,474	8,786

(1) For the years ended 31 March 2011 and 2012, we incurred a one-time loss of approximately ¥195 million and ¥979 million (equivalent to approximately HK$92 million), respectively, as a result of the Great East Japan Earthquake of 11 March 2011.

Key Financial Ratios

The following tables set forth our key financial ratios as at the dates or for the periods indicated.

	As at 31 March		
	2010	2011	2012
Current ratio[1]	0.6	0.8	1.1
Gearing ratio[2]	32.5%	22.8%	14.9%
Debt to equity ratio[3]	44.7%	24.1%	(5.7)%

(1) Current ratio represents current assets divided by current liabilities.
(2) Gearing ratio represents total borrowings divided by total assets.
(3) Debt to equity ratio is calculated by dividing net debt by total equity as at the end of each year.

	Year ended 31 March		
	2010	2011	2012
Interest coverage[1]	14.6	14.3	16.5
Return on equity[2]	28.1%	19.0%	17.0%
Return on assets[3]	12.1%	9.7%	10.2%

(1) Interest coverage represents profit before interest and tax divided by interest recorded during the year.
(2) Return on equity is calculated by dividing profit for the year by total equity as at the end of each year.
(3) Return on assets is calculated by dividing profit for the year by total assets as at the end of each year.

Current ratio

As at 31 March 2010, 2011 and 2012, our current ratio was 0.6, 0.8 and 1.1, respectively. Our current ratio as at 31 March 2011 improved to 0.8 compared to 0.6 as at 31 March 2010, primarily due to a decrease in borrowings after repayment of bank loans. Our current ratio as at 31 March 2012 rose to 1.1, because of an increase of bank and cash balances by ¥11,064 million (equivalent to approximately HK$1,040 million) and a decrease in short term borrowings by ¥13,785 million (equivalent to approximately HK$1,296 million) as compared to 31 March 2011.

Gearing ratio

As at 31 March 2010, 2011 and 2012, our gearing ratio was 32.5%, 22.8% and 14.9%, respectively.

Our gearing ratio fell from 32.5% as at 31 March 2010 to 22.8% as at 31 March 2011, and further decreased to 14.9% as at 31 March 2012, primarily due to a decrease of total borrowings by ¥16,252 million (equivalent to approximately HK$1,527 million) and ¥14,780 million (equivalent to approximately HK$1,389 million) for the years ended 31 March 2011 and 2012, respectively.

Debt to equity ratio

As at 31 March 2010, 2011 and 2012, our debt to equity ratio was 44.7%, 24.1%, (5.7)%, respectively. The decrease in our debt to equity ratio was primarily due to the repayment of borrowings and an increase in retained profits during the Relevant Period.

Interest coverage

Interest coverage was 14.6x, 14.3x, 16.5x for the years ended 31 March 2010, 2011 and 2012, respectively. Interest expenses decreased during the Relevant Period as a result of repayments of bank borrowings.

Return on equity

For the years ended 31 March 2010, 2011 and 2012, our return on equity was 28.1%, 19.0% and 17.0%, respectively.

Our return on equity decreased from 28.1% for the year ended 31 March 2010 to 19.0% for the year ended 31 March 2011. The decrease was due primarily to a 19.9% decrease in profit for the year. Our return on equity decreased by 2.0% to 17.0% for the year ended 31 March 2012 as compared to the prior year, primarily due to an increase in equity resulting from the

profit for the year made during the year. Please see "Financial Information — Management's Discussion on Analysis of Financial Condition and Results of Operations — Discussion of Results of Operations" for further details on our profitability.

Return on assets

For the years ended 31 March 2010, 2011 and 2012, our return on assets was 12.1%, 9.7% and 10.2%, respectively.

Our return on assets decreased from 12.1% for the year ended 31 March 2010 to 9.7% for the year ended 31 March 2011, primarily due to a 19.9% decrease in profit for the year. Our return on assets increased by 0.5% to 10.2% for the year ended 31 March 2012 as compared to the prior year, primarily due to the decrease of property, plant and equipment and available-for-sale financial assets as compared to the prior year, partially offset by a 1.8% decrease in profit for the year. Please see "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Discussion of Results of Operations" for further details on our profitability.

DIVIDENDS

During the Relevant Period, we declared interim and/or final dividends totaling in the aggregate approximately ¥7,245 million (equivalent to approximately HK$681 million), ¥4,312 million (equivalent to approximately HK$405 million) and ¥8,052 million (equivalent to approximately HK$757 million), respectively. See "Appendix I — Accountants' Report".

We intend to distribute dividends on an interim and year-end basis, subject to the availability of Distributable Amount and compliance with applicable laws and regulations in Japan and Hong Kong. Any dividends will be determined by our Board of Directors taking into consideration the interim and final results of our Company. We currently intend to recommend dividends totaling approximately 45% to 50% of our consolidated profit for the year (calculated in accordance with IFRS) for the year ending 31 March 2013, which we expect to declare by November 2012 and June 2013. For further information on our dividend policy, please see "Financial Information — Dividend Policy".

You should note that historical dividend distributions are not indicative of our future dividend policy.

MATERIAL SHAREHOLDERS' MATTERS UNDER JAPANESE LAW

Our Company was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan under the Companies Act and our principal business activities are conducted in Japan. Our Company is therefore subject to the Companies Act and other applicable laws and regulations in Japan. The laws of Hong Kong differ in certain material respects from Japanese law. This section is a summary of certain Japanese law, relating to the ownership and transfer of Shares, corporate law, Shareholder rights and obligations, dividends and applicable withholding taxes and foreign exchange controls, which, in the opinion of our Directors, are sufficiently material to bring to the attention of our Shareholders.

We provide below an overview of the key Shareholders' matters under Japanese law relevant to investing in our Company. This overview should be read in conjunction with the fuller discussion of these matters provided below and elsewhere in this document:

(1) There are significant risks associated with physical possession of Share certificates

- Shareholders who elect to physically possess (either personally or through a third party on their behalf) our Share certificates run the risk of an unauthorised third party coming into possession of such Share certificates and requiring our Company in a Japanese court to register him/her as a Shareholder in our share register.

- Shareholders whose Share certificates are lost or destroyed may need to assert their title in a Japanese court against an unauthorised third party.

(2) A Shareholder who loses his Share certificate will be subject to limitations on his rights as a Shareholder

- If a Shareholder loses his physical Share certificate, he will be subject to a one-year waiting period during which time he will be unable to transfer his Shares.

- During the one-year waiting period, any dividends, if declared, will be paid to the record Shareholder, and all rights associated with the Shares will generally remain with the record Shareholder.

(3) We are required under Japanese law to withhold tax prior to paying dividends

- In general, Shareholders interested in less than 3% of all the issued Shares of our Company who are neither Japanese residents nor Japanese corporations are subject to a withholding tax of 7% and 7.147% for dividends paid and due on or before 31 December 2012 and 31 December 2013, respectively.

(4) Dividends may be paid in either Hong Kong dollars or Japanese yen

- Shareholders who register in their own names may elect to receive their dividends in Hong Kong dollars or Japanese yen.

- Shareholders who elect to receive dividends in Japanese yen must supply to us their bank account details in Japan and such bank must be a member of The Japanese Bankers Currency Exchange Institution.

(5) You may face difficulties in effecting service of process against us

- Our Company and our business operations are subject to Japanese law. Our Directors and Executive Officers mostly reside in Japan with their assets located therein. You may face difficulties in establishing a claim against our Company or our Directors or Executive Officers in a court other than Japan's.

SHARE CERTIFICATES

Issuing Share certificates

Under the Companies Act, companies incorporated in Japan are categorised into two types in accordance with their share certificate arrangements: share certificate issuing companies (*kabuken hakkou gaisha* 株券発行会社) and non-share certificate issuing companies (*kabuken fuhakkou gaisha* 株券不発行会社). Companies are required under the Companies Act to specify which type they belong to in their articles of incorporation. Our Company is, as provided under our Articles of Incorporation, a share certificate issuing company (*kabuken hakkou gaisha* 株券発行会社). Share certificates will be issued with respect to the Shares.

Share certificate issuing companies

A share certificate issuing company has the following features:

(i) where the shares are freely transferable, issue of share certificates is mandatory;

(ii) where the transfer of shares is subject to certain restrictions or limitations (such as shareholder or board approval), issue of share certificates is optional;

(iii) where share certificates are issued, shares in a share certificate issuing company must be held in certificated form; and

(iv) notwithstanding (iii) above, shareholders may opt to surrender their share certificates to the issuing company in which case such shareholders will be holding the relevant shares without physically possessing a share certificate. However, this surrender arrangement is not equivalent to the concept of scripless shares as new share certificate must be re-issued before such shareholders may dispose of or transfer the relevant shares.

Non-share certificate issuing companies

Shares in non-share certificate issuing companies must be held in scripless form.

Under the Companies Act, a share certificate issuing company may convert itself into a non-share certificate issuing company, or *vice versa*, by amending its articles of incorporation, which requires shareholders' approval in the form of a special resolution.

Our Share certificates arrangements

Our Company is a share certificate issuing company. However, as transfers of Shares were previously subject to our Board's approval, we previously opted not to issue Share certificates and no Share certificates had been issued as at the date of this document.

MATERIAL SHAREHOLDERS' MATTERS UNDER JAPANESE LAW

The Board approval requirement was lifted in January 2012 and we intend to issue Share certificates to all existing Shareholders immediately and to continue to issue Share certificates in respect of any new Shares issued.

There are certain issues with respect to the possession of physical Share certificates under Japanese law. For further details please see "— Ownership of Shares" and "— Lost/destroyed Share certificates" in this section below. **You are strongly recommended to surrender your Share certificates to our Company or otherwise safe-keep your unsurrendered Share certificates at all times.**

OWNERSHIP OF SHARES

The Japanese law provisions regarding the ownership of, and the title to, the Shares are significantly different from those under the laws of Hong Kong and other similar jurisdictions.

General provisions under Japanese law

Generally speaking, Japanese law recognises a bearer of a share certificate as the legal and beneficial owner of the shares represented by such share certificate, whether or not that person's name appears on such share certificate. It is generally possible for the title to the shares of a Japanese company to be transferred by mere physical delivery of Share certificates evidencing such shares, without the transferor or transferee signing any document evidencing such transfer. A transferee that acquired such share certificate from the transferor would obtain valid title to the relevant shares provided that he/she had no knowledge of any defect in the transferor's title and was not grossly negligent in not discovering such defect.

Because no person shall be entitled to shareholders' rights such as voting rights and rights to receive dividends unless his/her name appears in the relevant share register, the title of a transferee will not be perfect unless and until he/she is registered as a shareholder in such share register. Unless they have *reasonable grounds* not to do so, Japanese companies are generally required to register bearers of share certificates as a shareholder in their respective share registers unconditionally. As advised by our Japan Legal Adviser, such *reasonable grounds* may include non-compliance with applicable laws and regulations.

Safe-keeping your Share certificates

Shareholders who elect to physically possess (either personally or through a third party on their behalf) our Share certificates run the risks of an unauthorised third party coming into possession of such Share certificates and requiring our Company in a Japanese court to register him/her as a Shareholder in our share register. If a Shareholder loses his/her Share certificate, it may also become necessary to assert his/her title in court. See "— Lost/destroyed Share certificates".

In light of these risks, we do not recommend Shareholders to physically possess our Share certificates. **You are strongly recommended to surrender their Share certificates to our Company or otherwise safe-keep your unsurrendered Share certificates at all times.**

Surrendering your Share certificates

Where a Shareholder elects to surrender his/her Share certificate to our Company, such Share certificate will be cancelled, destroyed and rendered void. It will be reflected on our share register that such Shareholder is the legal owner of, and that no Share certificate exists in respect of, the relevant Shares. Such Shareholder will not physically possess the Share

certificate, and will not be subject to the risks associated therewith. New Share certificates substituting the surrendered Share certificates must be re-issued before a Shareholder may dispose of or transfer the relevant Shares.

Shareholders wishing to hold Shares in their own names are strongly advised to surrender their Share certificates.

Eligibility of Share certificate surrender

Any Shareholder whose name appears on our share register and is imprinted on the relevant Share certificate may surrender a Share certificate with their name imprinted thereon. Bearers of our Share certificates wishing to surrender such Share certificates must first register themselves as a Shareholder in our share register, in accordance with the requirements and procedures set out in "— Transfer of Shares" in this section below.

Procedures for Share certificate surrender

A Shareholder wishing to surrender his/her Share certificate to our Company must apply by submitting the following documents to [●]:

- Share certificate with his/her name imprinted thereon;
- a completed and duly signed Share certificate surrender form;
- specimen signature of such Shareholder (in case of individual Shareholders) or authorised corporate representative (in case of corporate Shareholders); and
- identity proof.

Shareholders may apply at the office of [●] at [●]. No fee will be charged for Share certificate surrender.

Share certificates surrendered to our Company through [●] will be acknowledged with a written receipt. Shareholders wishing to check or verify the record of their shareholdings may request to inspect and/or print a copy of the share register of our Company in person at [●]. See "— Share register — Inspection of the Share register" for further information.

Procedures for Share certificate re-issue

New Share certificates substituting the surrendered Share certificates must be re-issued before a Shareholder may dispose of or transfer the relevant Shares. A Shareholder wishing to have a new Share certificate re-issued may apply by submitting the following documents to [●]:

- a completed and duly signed Share certificate re-issue form, the signature on which must match the specimen signature submitted on surrender;
- identity proof.

Shareholders may apply at the office of [●] at [●]. Shareholders will be charged a flat fee of HK$3 per Share certificate for Share certificate re-issue.

Implications of Share certificate re-issue

Shareholders wishing to surrender their Share certificates should note that **it generally takes a period of up to six business days to process a re-issue of new Share certificates substituting surrendered Share certificates, during which time the relevant Shareholders will be unable to dispose of or transfer the relevant Shares.**

Shareholders must carefully evaluate their option to surrender their Share certificates, taking into account the waiting period for re-issue of Share certificates of up to six business days and their individual investment plans. See the risk factor headed "A Shareholder who has surrendered his Share certificate to our Company may be subject to a waiting period of up to six business days before a new Share certificate is re-issued" in this document below.

TRANSFER OF SHARES

Shares in our Company are freely transferable. Transfers of our Shares are free from any restriction or limitations such as Board or Shareholder approval under our Articles of Incorporation. The effective date of any Share transfer will be the date when the transfer is reflected on our share register.

Under Japanese law, title to the Shares of a Japanese company can be transferred by mere physical delivery of Share certificates evidencing such Shares but such title will not be perfect unless and until the transferee registers himself/herself as a Shareholder in our share register. No person shall be entitled to Shareholders' rights such as voting rights and rights to receive dividends unless his/her name appears in the our share register. See "— Ownership of Shares" in this section above.

Any person who seeks to be registered as a Shareholder in our share register must follow the procedures set forth below.

Shareholders holding in their own names

Applying through our Company's headquarters

Any person who applies to be registered as a Shareholder in our share register through our Company's headquarters must present the following documents to us:

- Share certificates;
- duly executed and [●] instrument of transfer and/or contract note; and

- specimen signature.

All instruments of transfer and/or contract notes must be signed by the applicant (as transferee) and the original Shareholder whose name appears on the relevant Share certificate and our share register (as transferor).

It is the responsibility of the applicant to contact the record Shareholder to obtain the requisite signature(s) before making an application to us. If the applicant cannot locate the record Shareholder to sign on the relevant instrument of transfer and/or contract note, or if the record Shareholder refuses to sign on the same, the application will not be processed by our Company. For multiple transfers, a separate instrument of transfer and/or contract note is required for each transfer.

Applications for registration are accepted at our headquarters at 2-25-1-702, Nishi-Nippori, Arakawa-ku, Tokyo, Japan during normal business hours in Japan. Applications must be made in person. We will not accept applications for surrender and re-issue of Share certificates and/or registration for lost or destroyed Share certificates through our headquarters.

No person will be registered as a Shareholder (and hence become entitled to rights associated therewith) unless a duly [●] and executed instrument of transfer and/or contract note is presented to us.

In light of the risks described above, we do not recommend Shareholders to physically possess our Share certificates. **You are strongly recommended to surrender your Share certificates to our Company or otherwise safe-keep your unsurrendered Share certificates at all times.**

LOST/DESTROYED SHARE CERTIFICATES

There are significant risks associated with the loss or destruction of a Share certificate. Shareholders who lose their Share certificates run the risk of an unauthorised third party coming into possession of such Share certificates and requiring our Company in a Japanese court to register him/her as a Shareholder in our share register. **You are strongly recommended to surrender your Share certificates to our Company or otherwise safe-keep your unsurrendered Share certificates at all times.**

Consequences for lost/destroyed Share certificates

Shareholders whose Share certificates are lost or destroyed are required to apply to register such certificates as lost or destroyed in our share register. Under the Companies Act, our Company may only issue a replacement Share certificate after **a waiting period of one calendar year**, commencing from the date on which the relevant lost/destroyed registration is recorded in our share register. The one-year waiting period is a statutory provision under the Companies Act and we are unable to shorten the same under any circumstance.

During the one-year waiting period, Shareholders' rights associated with a lost/destroyed Share certificate will be dealt with as follows:

- The person recorded as the Shareholder in our share register will be treated as the Shareholder under Japanese law.

- Dividends, if declared, will be paid to the record Shareholder.

- No other person will be able to register as a Shareholder of the relevant Shares in our share register.

- Where a record Shareholder applies for lost/destroyed registration, he/she will be entitled to exercise all voting rights associated with the relevant Shares.

- Where an unregistered owner applies for the lost/destroyed registration by presenting a duly [●] and executed instrument of transfer and/or contract note, no one shall be entitled to exercise the relevant voting rights until (i) the expiration of the one-year waiting period; or (ii) the cancellation of the lost/destroyed registration due to the recovery of the lost Share certificate during the one-year period.

We are required under the Companies Act to cancel a lost/destroyed registration if the lost/destroyed Share certificate has been recovered and presented to our [●]. See "— Cancellation of lost/destroyed registration" in this sub-section below.

General procedures for applying for a lost/destroyed registration

Shareholders whose Share certificates are lost or destroyed must immediately apply for a lost/destroyed registration through our [●].

The following procedures are not applicable to Shareholders who have surrendered their Share certificates to our Company.

Procedures applicable to record Shareholders

Where the person applying for the lost/destroyed registration is the record Shareholder, he/she is required to submit the following documents to our [●]:

- completed and signed lost/destroyed registration form, the signature on which must match the specimen signature on our record; and

- identity proof.

A replacement Share certificate will be issued after the one-year waiting period. However, no replacement Share certificate will be issued if the lost/destroyed registration is cancelled during the one-year waiting period. See "— Cancellation of lost/destroyed registration" in this sub-section below.

Procedures applicable to unregistered owners

An unregistered owner is a person who, prior to a Share certificate having been lost or destroyed, has acquired valid title over the relevant Shares without registering such acquisition in our share register before such loss or destruction. Under Japanese law, unregistered owners may also apply for a lost/destroyed registration. To prove his/her valid title, an unregistered owner is required to submit the following document to our [●]:

- an instrument of transfer and/or contract note duly [●] and executed by the record Shareholder as the transferor and the unregistered owner as the transferee.

In addition, the following documents must be submitted to our [●] to update our share register:

- identity proof; and
- name, address and specimen signature.

Applications for lost/destroyed registration lodged by unregistered owners will not be accepted without a duly executed and [●] instrument of transfer and/or contract note. A replacement Share certificate will be issued in the name of the unregistered owner after the one-year waiting period if the documentary requirements set forth above have been fulfilled. However, no replacement Share certificate will be issued if the lost/destroyed registration is cancelled during the one-year waiting period. See "— Cancellation of lost/destroyed registration" in this sub-section below.

Upon receipt of an application for lost/destroyed registration from an unregistered owner, our Company is required under Japanese law to notify the record Shareholder of the relevant details so as to give the latter an opportunity to assert his/her title to the Shares. In case of misfeasance or misrepresentation, the record Shareholder may cancel the lost/destroyed registration during the one-year waiting period by presenting the relevant Share certificate (where available) to our [●] or initiate legal proceedings. All notifications will be made in writing to the record Shareholder's registered address as recorded in our share register. Shareholders are advised to update their contact details with our [●] as and when necessary.

Cancellation of lost/destroyed registration

If the applicant of the lost/destroyed registration (who shall be a record Shareholder or an unregistered owner, as the case may be) has recovered the lost Share certificate and presents it to our [●], we are required under the Companies Act to cancel such lost/destroyed registration on the same day. If a third party other than the applicant of the lost/destroyed registration has come into possession of the lost certificate and presents it to our [●], we are required under the Companies Act to cancel such lost/destroyed registration within two weeks. The recovered Share certificate will be returned to the applicant of the lost/destroyed registration in Scenario 1 below.

Consequences of cancelled lost/destroyed registrations

Where a lost/destroyed registration has been cancelled, no replacement Share certificate will be issued to the applicant of the lost/destroyed Share certificate even after the one-year waiting period. The person recorded as the Shareholder in our share register will be treated as the Shareholder under Japanese law and Shareholders' rights associated with the relevant Shares will be dealt with accordingly.

Scenario 1: where the bearer does not intend to register as a Shareholder

Where the bearer who presents the recovered Share certificate to our [●] does not intend to register himself/herself as a Shareholder, our Company will require such bearer to return the said Share certificate to the applicant of the lost/destroyed registration.

Scenario 2: where the bearer intends to register as a Shareholder

Where the bearer who presents the recovered Share certificate to our [●] intends to register himself/herself as a Shareholder in our share register and does not intend to return the said Share certificate to the applicant of the lost/destroyed registration, he/she will be required to present the following to our [●]:

- an instrument of transfer and/or contract note duly [●] and executed by the applicant of the lost/destroyed registration as the transferor and the bearer as the transferee.

In addition, the following documents must be submitted to our [●] to update our share register:

- identity proof; and
- name, address and specimen signature.

We will not register the bearer as a Shareholder in our share register without a duly executed and [●] instrument of transfer and/or contract note.

It is the responsibility of the bearer to contact the applicant of the lost/destroyed registration to obtain the requisite signature(s) before making an application to us. If the bearer cannot locate the applicant of the lost/destroyed registration to sign on the relevant instrument of transfer and/or contract note, or if the applicant of the lost/destroyed registration refuses to sign on the same, the application will not be processed by our [●].

Our [●] will notify the applicant of the lost/destroyed registration of the details of such bearer so as to give the former an opportunity to assert his/her title in court. The applicant of the lost/destroyed registration may apply to the court to re-instate the lost/destroyed registration and re-initiate the one-year waiting period, upon the expiration of which they will be able to transfer or dispose of the relevant Shares as they would normally be able to. Due to the limited enforceability of foreign judgements under the Japanese legal system, all legal proceedings regarding title to Shares should brought in a Japanese court. All notifications to the record Shareholders will be made in writing to their registered address recorded in our share register. Shareholders are advised to update their contact details with our [●] as and when necessary.

SHARE REGISTER

Entries on the share register

Our Japan Legal Adviser has confirmed that it is not mandatory under Japanese law for our Company to appoint a [●] or transfer agent based in Japan.

Inspection of the share register

Under the Companies Act, a Shareholder or creditor wishing to inspect the share register may request to do so in person at our [●]'s office during normal business hours. A printed copy of our share register may also be requested.

Our [●] will require a Shareholder or creditor to complete a prescribed form setting out details of the Shareholder or creditor and the purpose of inspection. Our [●] will then contact our Company and notify the Shareholder or creditor of the Company's decision within two business days and, if approved, our [●] will notify the Shareholder or creditor of the date of the inspection. Other than applicable printing costs, no fee will be charged for the inspection.

MATERIAL SHAREHOLDERS' MATTERS UNDER JAPANESE LAW

The Companies Act allows our Company to refuse a request for inspection of our share register only under the following circumstances:

(i) where a request is made for a purpose other than in relation to securing or exercising rights as a Shareholder or creditor;

(ii) where a request is made for the purpose to interfere with our business operation or to damage the interests of Shareholders as a whole;

(iii) where the person making a request is carrying on, or is engaged in, a business substantially in competition with our business;

(iv) where a request is made to inform, in exchange for payment, a third party of any fact that could not have been obtained other than from an inspection (including copying); and

(v) where a person making a request has informed, in exchange for payment, a third party of any fact that could not have been obtained other than from an inspection (including copying) during the last two years.

Any person who is not a Shareholder or creditor of our Company (including national and prefectural governmental agencies) may also, to the extent allowed under the Personal Data Act, inspect and obtain a copy of our share register. As advised by our Japan Legal Adviser, the inspection of our share register is allowed under the Personal Data Act if:

(i) the inspection of the share register is based on laws and regulations;

(ii) the inspection of the share register is necessary for the protection of the life, body, or property of an individual and if it is difficult to obtain the consent of the person the subject of the inquiry;

(iii) the inspection of the share register is necessary for improving public health or promoting the sound growth of children and if it is difficult to obtain the consent of the person the subject of the inquiry; or

(iv) the inspection of the share register is necessary for cooperating with a state organ, a local government, or an individual or a business operator entrusted by one in executing the affairs prescribed by laws and regulations and if obtaining the consent of the person the subject of the inquiry is likely to impede the execution of such affairs.

Shareholders who have surrendered their Share certificates to our Company may make use of the inspection procedures described under this sub-section to check and verify their shareholding in our Company.

PLEDGE OF SHARES

The Companies Act permits a pledge to be created over a Share where there is agreement between the Shareholder and the pledgee and the Share certificate is delivered to the pledgee. A pledge need not be recorded in the share register of our Company to be valid and enforceable between the Shareholder and pledgee, against third parties and our Company. However, a record of the existence of a pledge or other security interest (such as an assignment of beneficial interest, or *jouto tanpo* 譲渡担保) will facilitate a claim by the pledgee or security interest holder for payment of dividends or other deliverables in an enforcement scenario.

MATERIAL SHAREHOLDERS' MATTERS UNDER JAPANESE LAW

STAMP DUTY

Japanese stamp duty

Share transfers do not attract stamp duty in Japan. However, issue of a new Share certificate in Japan would be subject to Japanese stamp duty (印紙税 *inshizei*) ranging from ¥200 to ¥20,000.

DIVIDENDS

Record date for distributing dividends

The Articles of Incorporation of our Company provide that the annual record date for determining Shareholders entitled to receive dividends or other distributions, if declared by our Company, is 31 March (for year-end dividends) or 30 September (for interim dividends). If any dividend or distribution is declared by our Company, there is a substantial time gap between the date of payment of the relevant dividend or distribution and the record date for determining Shareholders entitled to receive dividends or other distributions. Shareholders who have acquired the Shares in our Company after 31 March (for year-end dividends) or 30 September (for interim dividends) each year may not be entitled to receive dividends or distributions for the same year.

Restrictions on dividend distributions

Our Company may declare and pay, in accordance with the Companies Act and our Articles of Incorporation, (i) interim cash dividends (declared at the end of the second quarter of a financial year) with the approval of our Board of Directors and (ii) other dividends (including year-end dividends) with the approval of our Board of Directors (unless such dividend is proposed to be paid in kind (other than Shares, bonds (including convertible bonds) and share option issued by our Company, which the Companies Act prohibits) without giving Shareholders the right to demand distribution in cash, in which case a special Shareholders' resolution would be required). Scrip dividends in the form of Shares, bonds (including convertible bonds) or share options issued by our Company are prohibited under the Companies Act. The amount or value of any dividends declared may not exceed the available Distributable Amount.

The Companies Act provides that a company's Distributable Amount is calculated using the retained earnings (*joyo kin* 剰余金) recorded in a company's non-consolidated financial statements prepared in accordance with JGAAP (rather than IFRS) with certain adjustments (including deduction of the book value of any treasury Shares held by a company) available under the Companies Act and the relevant Ordinance of the Japanese Ministry of Justice. The Companies Act also requires an amount equivalent to 10% of any dividend resulting in a decrease in retained earnings (*joyo kin* 剰余金) to be allocated to reserves (*junbi kin* 準備金) until the aggregate amount of the reserve (*junbi kin* 準備金) equals 25% of the amount of share capital. See "Appendix III — Summary of Articles of Incorporation, the Companies Act and Taxation in Japan — Articles of Incorporation — Restriction on distribution of dividends" for a detailed description on how Distributable Amount is calculated.

Given that our consolidated financial statements set out in the Accountants' Report in Appendix I have been prepared in accordance with IFRS, the amounts of the consolidated retained earnings determined under IFRS differ from the retained earnings (*joyo kin* 剰余金) recorded in our Company's non-consolidated financial statements under JGAAP. The differences are caused by items which include, for example, the adjustment related to goodwill and intangible asset amortisation, share-based payments and derivative financial liabilities.

MATERIAL SHAREHOLDERS' MATTERS UNDER JAPANESE LAW

Our Chief Executive Officer is required by the Companies Act to report on (and in some circumstances, obtain Shareholders' approval for) our JGAAP financial statements at a Shareholders' meeting held within three months of our financial year-end. The JGAAP financial statements must be despatched to Shareholders along with the notice of such Shareholders' meeting at least 21 days before the meeting. See "Appendix III — Summary of Articles of Incorporation, the Companies Act and Taxation in Japan — 2. Japanese Corporation Law — (I) Accounting and auditing requirements" for further information.

Currency of dividend payments

Shareholders entitled to receive cash dividends from our Company will have the option of receiving their entitlements in either Japanese yen or Hong Kong dollars (to be converted by our Company at the then prevailing foreign exchange rate available to our Company), provided that, in order to elect Japanese yen, Shareholders must supply bank account details in Japan (such bank must be a member of Japanese Bankers Currency Exchange Institution) to our Company through [●]. No partial election will be allowed, and Shareholders, including nominee companies which hold Shares on behalf of the Shareholders, cannot elect to receive part of the cash dividends in Japanese yen and part of the cash dividends in Hong Kong dollars. If no election is made by a Shareholder, such Shareholder will receive dividend payments in Hong Kong dollars. Shareholders who have previously elected to receive dividend payments in Japanese yen and supplied bank account details in Japan to our Company will continue to receive dividend payments in Japanese yen.

Japanese withholding tax for dividend payments

Shareholder holding the Shares in his own name who is either a resident in Japan or a company incorporated in Japan

Dividend due and paid	Individual Shareholder that is interested in less than 3% of the entire issued Shares of our Company	Individual Shareholder that is interested in 3% or more of the entire issued Shares of our Company	Corporate Shareholder
On or before 31 December 2012	10%	20%	7%
On or before 31 December 2013	10.147%	20.420%	7.147%
On or before 31 December 2037	20.315%	20.420%	15.315%
On or after 1 January 2038	20%	20%	15%

Shareholder holding the Shares in his own name who is not a resident in Japan or a company incorporated in Japan

Dividend due and paid	Individual Shareholder that is interested in less than 3% of the entire issued Shares of our Company	Individual Shareholder that is interested in 3% or more of the entire issued Shares of our Company	Corporate Shareholder
On or before 31 December 2012	7%	20% or 10%(1)	7% or 5%(1)
On or before 31 December 2013	7.147%	20.420% or 10%(1)	7.147% or 5%(1)
On or before 31 December 2037	15.315% or 10%(1)	20.420% or 10%(1)	15.315% or 5%/10%(1)
On or after 1 January 2038	15% or 10%(1)	20% or 10%(1)	15% or 5%/10%(1)

(1) Individual and corporate Shareholders in Hong Kong will be subject to a withholding tax in Japan not exceeding 10% (or not exceeding 5% for corporate Shareholders who are interested in 10% or more of the voting Shares of our Company for the six months ending on the record date for dividend distribution) for dividend payments under the Hong Kong-Japan Tax Treaty. See "— Dividends — The Hong Kong-Japan Tax Treaty" in this section below.

The Hong Kong-Japan Tax Treaty

Following the conclusion of the Hong Kong-Japan Tax Treaty, effective in Japan since 14 August 2011, dividends paid by our Company to our Shareholders who (i) are Hong Kong residents or companies incorporated in Hong Kong; and (ii) have no permanent presence in Japan, will be subject to a withholding tax in Japan not exceeding 10% (or not exceeding 5% for corporate Shareholders who are interested in 10% or more of the voting Shares of our Company for the six months ending on the record date for dividend distribution) for dividends payable after 1 January 2012.

Shareholders who hold in their own names

Our Tax Adviser has confirmed that corporate and other individual Shareholders who hold the Shares in their own names and believe that they are entitled to reduced withholding tax rates on dividend payments made by our Company under the Hong Kong-Japan Tax Treaty may need to make an application to Japan's National Tax Agency through our [●] to establish their eligibility to the satisfaction of Japan's National Tax Agency.

Applications for reduced withholding tax rates under the Hong Kong-Japan Tax Treaty applicable to dividend payments by our Company can be made before the record date on which Shareholders are determined to be eligible for such dividends. Applications must be made using the Application Form for Income Tax Convention (Relief from Japanese Income Tax on Dividends). Such application form is available in Japanese and English on the website of Japan's National Tax Agency at *(www.nta.go.jp/tetsuzuki/shinsei/annai/joyaku/annai/pdf2/250.pdf)*.

Application forms in Japanese and English, together with an unofficial Chinese translation of the instructions for completing the application form, will be made available to our Shareholders at our Company's principal place of business in Hong Kong and our [●] prior to the record date on which Shareholders are determined to be eligible for dividend payments. Our

Company will announce to Shareholders on each occasion these application forms become available. Detailed documentary requirements for the application process under the Hong Kong-Japan Tax Treaty will be specified in our dividend payment announcements.

Alternatively, Shareholders may be able to claim a refund from Japan's National Tax Agency of withholding tax withheld in excess of the rate payable under an applicable tax treaty. Applications must be made using the Application Form for Refund of the Overpaid Withholding Tax Other Than Redemption of Securities and Remuneration Derived from Rendering Personal Services Exercised by an Entertainer or a Sportsman in Accordance with the Income Tax Convention which is available in Japanese and English on the website of Japan's National Tax Agency at *www.nta.go.jp/tetsuzuki/shinsei/annai/joyaku/annai/pdf2/260.pdf*. Physical application forms for tax refund in Japanese and English, including an unofficial Chinese translation of the instructions for completing the application form, will be made available to our Shareholders at our Company's principal place of business in Hong Kong and our [●]. Our Company will announce to our Shareholders on each occasion these application forms become available. You should note that there may be delays in obtaining this refund. Detailed documentary requirements for the refund process under the Hong Kong-Japan Tax Treaty will be specified in our dividend payment announcements.

The Hong Kong-Japan Tax Treaty will be applied to dividends payable after 1 January 2012. **You are recommended to consult your professional advisers if you are in any doubt as to the implications of the Hong Kong — Japan Tax Treaty or the application process for any reduced rates on dividend payments made by our Company**. We do not assume any responsibility to ensure withholding is made at the reduced treaty rate or to ensure no withholding is made for Shareholders who would be so eligible under any applicable income tax treaty.

SHAREHOLDER RIGHTS AND OBLIGATIONS

Shareholder rights

Subject to certain conditions and qualifications set out in the Companies Act, Shareholders have the right to (i) inspect or copy statutory documents including our share register, Articles of Incorporation, minutes of meetings, accounting books and financial statements; (ii) table matters or proposals to the agenda for consideration at a Shareholders' meeting and in the convocation notice; (iii) require the Directors to offer explanations in response to questions raised at Shareholders' meetings; (iv) receive distributions of dividends; (v) receive distributions of surplus assets in a liquidation; and (vi) be registered as a Shareholder in the share register of our Company.

Other than the rights above, subject to certain conditions or qualifications under the Companies Act, Shareholders are also entitled to the right to:

(i) demand that the issue of new Shares or share options be suspended;

(ii) demand that summary mergers *(kani-gappei tou* 簡易合併等*)* (in cases where the Company is a surviving company) be suspended. Summary mergers are mergers where Shareholders' approval is not required under the Companies Act;

(iii) bring judicial action to invalidate certain corporate actions, such as changing a place of incorporation, issue of new Shares, reduction of share capital, and mergers and acquisitions;

(iv) bring judicial action to render invalid the issue of new Shares, the disposition of treasury Shares or the issue of new share options as made without valid corporate authority;

(v) bring judicial action to confirm the invalidity of a resolution at a Shareholders' meeting or class meeting;

(vi) bring judicial action to cancel a resolution at a Shareholders' meeting or class meeting;

(vii) bring judicial action to pursue the liability of Directors (provided that such Shareholders have continuously held Shares in our Company for the six months preceding such court action);

(viii) demand suspension of acts in violation of laws and our Articles of Incorporation by our Directors (provided that such Shareholders have continuously held Shares in our Company for the six months preceding such demand);

(ix) petition for appointment of an inspector to investigate the convocation of and approval of resolutions passed at a Shareholders' meeting (provided that, such Shareholders have held at least 1% of the total voting rights in the Company for the preceding six months);

(x) demand convocation of a Shareholders' meeting (provided that such Shareholders hold, as at the time of request, at least 3% of the total voting rights in our Company);

(xi) bring judicial action to dismiss Directors (provided that such Shareholders have held at least 3% of the total voting rights in our Company (excluding Shares held by certain persons such as any Director proposed to be dismissed) in our Company for the preceding six months preceding such litigation); and

(xii) petition a court to dissolve our Company based upon certain prescribed grounds such as the Chief Executive Officer continuously violating criminal laws despite a written warning from the Ministry of Justice (provided that such Shareholders hold at least 10% of the entire issued share capital or the total voting rights in our Company as at the time of request).

Issue of Shares, stock acquisition rights or convertible bonds

Under our Articles of Incorporation, if our Company intends to issue any Share or share option (including convertible bonds), the number, price, due date of payment of price and other certain terms as defined in the Companies Act (the "Subscription Requirements") of the Shares or share options proposed to be issued shall be fixed by ordinary resolution passed in a Shareholders' meeting. Except that, in the circumstances where an issue or allotment of the Shares is made at a price *especially favourable* to the subscriber or allottee of the Shares, a special resolution of the Shareholders shall be required. Under our Articles of Incorporation, the Shareholders may, at their discretion, grant our Board of Directors a general mandate to issue and allot Shares via an ordinary resolution.

Our Japan Legal Adviser has confirmed that there is no clear definition under Japanese law as to the circumstances where a price for issue or allotment of Shares may be deemed as *especially favourable* to a subscriber or allottee. Under the internal rules of The Japan Securities Dealers Association, an issue or allotment of Shares may be taken as *especially favourable* to a subscriber or allottee when less than 90% of the market value of the Shares so issued or allotted is required as consideration from the said subscriber or allottee. As to the

initial determination on whether an issue or allotment of shares, share options or convertible bonds is at a *especially favourable* price, our Board is not required to seek an opinion from independent experts as to the price of such issue or allotment prior to making such determination. However, our Directors may elect to obtain an opinion from independent experts if they have any doubt about an *especially favourable* price requiring a special resolution of the Shareholders.

Alternative proposals

Under Japanese law, where a proposal is included as an agenda item of a Shareholders' meeting, any Shareholder with at least one vote may, without prior notice to our Company, make a counter proposal to such original proposal at the said Shareholders' meeting to be considered and voted on by the Shareholders. By way of illustration, where a proposal to appoint a person as a Director is included as an agenda item of a Shareholders' meeting, any Shareholder with at least one vote may counter-propose to appoint another person at the relevant Shareholders' meeting.

However, a Shareholder may not make a counter proposal if a counter proposal of a similar nature failed to receive 10% of the votes in favour of such counter proposal at a Shareholders' meeting within the previous three years. Shareholders wishing to make such proposals will have to follow the normal notification requirements set out in the paragraphs headed "Japanese corporation law — Protection of minority Shareholders — Rights to demand that Directors add certain matters to the agenda of a Shareholders' meeting" in Appendix III to this document and cannot make such proposals as counter proposals at a Shareholders' meeting without prior notice. By way of illustration only, if a counter proposal to appoint certain person as a Director has failed to receive 10% of the votes at a Shareholders' meeting, any Shareholder cannot make a counter proposal to appoint any person as a Director within the next three years at a Shareholders' meeting. Hence, Shareholders who do not attend a Shareholders' meeting in person or who are not represented at such meeting by a proxy may lose the chance to vote on a spontaneous counter proposal. If a Shareholder casts a written vote in advance in favour of an original proposal, the written vote will be counted as a vote against any counter proposal. If a Shareholder does not cast (i) written votes in advance or (ii) written votes in advance against the original proposal, they will be deemed not to have voted in favour of or against counter proposal.

Voting by proxies

Under our Articles of Incorporation, any Shareholder of our Company entitled to attend and vote at a Shareholders' meeting of our Company is entitled to appoint another person as his proxy to attend and vote on behalf of him. A Shareholder (including nominee companies) who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a Shareholders' meeting of our Company or at a class meeting. A proxy needs not be a Shareholder of the Company and there is no limitation nor restriction in respect of the qualification and identity of the proxies and/or corporate representatives to be appointed by our Shareholders. A proxy shall be entitled to exercise the same powers on behalf of a Shareholder who is an individual and for whom he acts as a proxy as such Shareholder could exercise provided that he/she can present to our Company identity proof and authorisation letters duly executed by the record Shareholder (in case of an individual Shareholder) or an authorised corporate representative (in case of a corporate Shareholder) to prove his/her authority. In addition, a proxy shall be entitled to exercise the same powers on behalf of a Shareholder which is a corporation and for which he acts as a proxy as such Shareholder could exercise if it were an individual Shareholder. Votes may be given either personally (or, in case of a corporate Shareholder, by its duly authorised corporate representative) or by proxy.

MATERIAL SHAREHOLDERS' MATTERS UNDER JAPANESE LAW

Ability of Shareholder to cast votes in different ways

Under the Companies Act, a Shareholder (including a nominee) is permitted to divide his/her Shares and cast his/her votes corresponding to these Shares in different ways, casting his/her votes partly for and partly against a resolution. A Shareholder who wishes to cast his/her votes in different ways is required to notify our Company of his/her then intention to cast his/her votes in different ways and the reasons therefor at least three days prior to the date of the Shareholders' meeting. Our Company may object to a Shareholder casting his/her votes in different ways if such Shareholder holds our Shares on his own behalf rather than as nominee on behalf of others.

SHAREHOLDERS' MEETING

Our annual Shareholders' meeting is usually held in June. Pursuant to the Articles of Incorporation of our Company, the record date for our annual Shareholders' meetings is 31 March each year.

A record date is the date for determining the list of eligible Shareholders entitled to vote at our annual Shareholders' meeting. Under the Companies Act, an annual Shareholders' meeting must be held within three months from the record date. Generally it takes two to three months from the record date for a company incorporated in Japan, such as our Company, to convene an annual Shareholders' meeting.

Shareholders who acquire our Shares after 31 March each year may not be entitled to attend and vote at the annual Shareholders' meeting of the same year.

In respect of an extraordinary Shareholders' meeting, a record date may, under the Companies Act, be set by our Board of Directors and announced by public notice at least 14 days prior to the proposed record date. Shareholders who acquire our Shares after such record date will not have the right to vote at the relevant extraordinary Shareholders' meeting.

We currently plan to hold our annual Shareholders' meetings in Japan and/or at any other locations as may be indicated in the convocation notices, which shall be despatched to our Shareholders at least 21 days prior to such meetings as required by our Articles of Incorporation. Shareholders who are unable to attend the annual Shareholders' meeting in person will be able to vote by proxy under the procedures set out in the paragraphs headed "— Shareholder rights and obligations — Voting by proxies" in this section above. Details as to the location and other arrangements of each annual Shareholders' meeting for Shareholders who are unable to attend in person will be announced in the convocation notices.

DEFINITIONS

In this document, the following terms have the following meanings unless the context otherwise requires. Certain technical terms are explained in the section headed "Glossary" in this document.

"AGM"	annual Shareholders' general meeting of our Company
"AML"	anti-money laundering
"Amusement Business Law"	the Act on Control and Improvement of Amusement Business etc. of Japan* (*fuzoku eigyo tou no kisei oyobi gyomu no tekiseika tou ni kansuru houritsu* 風俗営業等の規制及び業務の適正化等に関する法律) (Act No. 122 of 1948, as amended)
"Articles" or "Articles of Incorporation"	our articles of incorporation that were adopted by our Shareholders on 20 June 2012 and will take effects on certain date, a summary of which is contained in Appendix III to this document
"Articles Requirements"	the articles of association requirements set out in Appendix 3 of the [●]
"associate"	has the meaning ascribed to it under certain rules and regulations
"Beijing GEO"	Beijing GEO Coffee Co., Ltd.* (北京吉意歐咖啡有限公司), a company incorporated in the PRC on 4 August 2004 (registration number 0154966). Beijing GEO is held as to 100% by DYH through Dynam Investment
"Board" or "Board of Directors" or "our Board"	the board of Directors of our Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"Business Partners"	Business Partners Co., Ltd.* (株式会社ビジネスパートナーズ), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 11 January 2011 (registration number 0118-01-024446). Business Partners is a wholly-owned subsidiary of DYH
"Cabin Plaza"	Cabin Plaza Co., Ltd.* (株式会社キャビンプラザ), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act (registration number 3800-01-019664) on 25 May 1988. Cabin Plaza was acquired by DYH on 1 April 2009 and is a wholly-owned subsidiary of our Company
"CAGR"	compound annual growth rate
"CB Holders"	holders of the CBs

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"Chief Executive Officer"	the chief executive officer (*daihyo shikkoyaku* 代表執行役) of our Company
"Civil Code"	the Civil Code of Japan* (*minpou* 民法) (Act No. 89 of 1896, as amended)
"Commercial Code"	the Commercial Code of Japan* (*shohou* 商法) (Act No. 48 of 1899, as amended), which was consolidated into the Companies Act in 2005
"Companies Act"	the Companies Act of Japan* (*kaisha hou* 会社法) (Act No. 86 of 2005, as amended)
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company", "our", "we", or "us"	DYNAM JAPAN HOLDINGS Co., Ltd.* (株式会社ダイナムジャパンホールディングス), a stock company (*kabushiki-gaisha* 株式会社) with limited liability incorporated under the Companies Act in Japan on 20 September 2011 (registration number 0115-01-017114), or where the context requires, the Company and its subsidiaries collectively
"Company Split"	the restructuring undergone by DYH and its subsidiaries on 20 September 2011 which included the incorporation of our Company and the transfer of our operating subsidiaries to our Company. Details regarding the Company Split are set forth in the section headed "History, Development and Reorganisation" in this document
"Company Split Plan"	the primary documentation governing the Company Split, which was approved (as amended) by the DYH Board on 11 August 2011 and 29 August 2011 and the DYH Shareholders on 16 September 2011
"connected person(s)"	has the meaning ascribed to it under certain rules and regulations
"Controlling Shareholder(s)"	has the meaning ascribed to it under [●] and, in the context of this document, means the controlling Shareholders of our Company, namely Mr. Sato, Rich-O and each of the Sato Family Members. See "Relationship with Controlling Shareholders" in this document
"Convertible Bonds" or "CBs"	the convertible bonds of an aggregate principal amount of US$65 million issued to seven institutional investors on 22 November 2011 and fully redeemed by our Company on 1 March 2012, the particulars of which are set out in the paragraphs headed "History, Development and Reorganisation — Convertible Bonds" in this document

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"Daikokuten"	Daikokuten Co., Ltd.* (大黒天株式会社), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 12 March 1977 (registration number 0900-01-004818). Daikokuten was acquired by DYH on 1 December 2009 and is a wholly-owned subsidiary of our Company
"Deed of Indemnity"	the deed of indemnity dated [●] 2012 and executed by the Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed "Statutory and General Information — Other information — Indemnities" in Appendix V to this document
"Deed of Non-Competition"	the deed of non-competition dated [●] 2012 executed by DYH and each of our Controlling Shareholders in favour of our Company, particulars of which are set forth in the paragraphs headed "Relationship with Controlling Shareholders — Deed of Non-Competition" in this document
"Design Act"	the Design Act of Japan (*ishouhou* 意匠法) (Act No. 55 of 2006, as amended)
"Director(s)" or "our Director(s)"	the director(s) of our Company or any one of them
"Director Shareholders"	four Directors of our Company, namely Mr. Ushijima, Mr. Horiba, Mr. Takano and Mr. Yoshida, who are interested in the Shares of our Company. As at the Latest Practicable Date, our Director Shareholders were interested in 1,098,000 Shares in aggregate, representing approximately 0.2% of our entire issued share capital. See "History, Development and Reorganisation — Our shareholding structure" in this document
"Dissolved Entity(ies)"	Dynamic Design and P Brand Planning, or any one of them
"Distributable Amount"	the retained earnings recorded in the Company's non-consolidated financial statements prepared in accordance with JGAAP, with certain adjustments (including the deduction of the book value of any treasury Shares held by the Company) as defined in the paragraphs headed "— 2. Japanese Corporation Law — (e) Dividends and distribution — (i) Restriction on distribution of dividends" in Appendix III to this document
"DYH"	DYNAM Holdings Co., Ltd.* (株式会社ダイナムホールディングス), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 15 December 1987 (registration number 0115-01-010630). As at the Latest Practicable Date, DYH was owned as to approximately 26.8%, 15.8%, and 40.9%, respectively, by Mr. Sato, Rich-O and the Sato Family Members in aggregate
"DYH Board"	the board of directors of DYH from time to time

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"DYH Group"	DYH and its subsidiaries prior to the Reorganisation, which includes our Group
"DYH Shares"	ordinary shares of DYH
"DYH Shareholders"	the shareholders of DYH
"Dynam"	DYNAM Co., Ltd.* (株式会社ダイナム), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 25 July 1967 (registration number 0115-01-007357). Dynam is a wholly-owned subsidiary of our Company
"Dynam Advertisement"	Dynam Advertisement Planning Co., Ltd.* (株式会社ダイナムアド企画), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 1 July 2010 (registration number 0115-01-015963). Dynam Advertisement is a wholly-owned subsidiary of our Company
"Dynam Data"	DYNAM Data Processing Co., Ltd.* (株式会社ダイナム情報処理), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 31 October 2003 (registration number 0118-01-023789). Dynam Data is a wholly-owned subsidiary of our Company
"Dynam Investment"	Dynam Investment Co., Ltd.* (株式会社ダイナム綜合投資), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability on 9 April 2003 under the Companies Act (registration number 0115-01-010317). Dynam Investment is a wholly-owned subsidiary of the DYH
"Dynam Land"	DYNAM Land & Building Co., Ltd.* (株式会社ダイナム土地建物), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 31 October 2003 (registration number 0115-01-010575). Dynam Land is a wholly-owned subsidiary of our Company
"Dynamic Design"	Dynamic Design Co., Ltd.* (株式会社ダイナミックデザイン), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 13 December 2003 (registration number 0115-01-010594), which was wholly-owned by DYH before its dissolution and deregistration on 1 February 2008. Dynamic Design is a Dissolved Entity
"EBI"	Entertainment Business Institute, a private research and consulting firm specialising in the gaming industry in Japan

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"Employee Shareholders"	the ESOP and 38 current and former employees of our Group, each being an Independent Third Party to our Group and to our Controlling Shareholders. As at the Latest Practicable Date, our Employee Shareholders were interested in 23,511,240 Shares in aggregate, representing approximately 3.7% of our entire share capital. See "History, Development and Reorganisation — Our shareholding structure" in this document
"Erin International"	Erin International Co., Ltd., a company with limited liability incorporated in Mongolia on 30 May 2003 (registration number 9019015133). As at the Latest Practicable Date, Erin International has held as to 87.5% by DYH through Dynam Investment
"ESOP"	DYNAM Employees Stock Ownership Plan* (株式会社ダイナムジャパンホールディングス従業員持株会), an association (*minpoujou no kumiai* 民法上の組合) established by DYH under the Civil Code on 2 October 1988. The ESOP is a discretionary trust that grants entitlement rights in our Company to the current employees of our Group. See "History, Development and Reorganisation — Our shareholding structure" in this document
"Executive Officer(s)"	the executive officer(s) (*shikkoyaku* 執行役) of our Company or any one of them. For more information on our Executive Officers, see "Directors and Senior Management — Senior Management — Executive Officers" in this document
"First Share Swap"	the share swap arrangements undertaken by the DYH Group on 1 October 2006, as a result of which Dynam became a wholly-owned subsidiary of DYH. The First Share Swap is part of the 2006 Restructuring, which is described in more details in the paragraphs headed "History, Development and Reorganisation — Our corporate development — 2006 Restructuring" in this document
"GDP"	gross domestic product
"Genghis Khan"	Genghis Khan Travel Co., Ltd.* (株式会社チンギスハーン旅行), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 13 November 2003 (registration number 0115-01-010593). Genghis Khan is a wholly-owned subsidiary of DYH
"GIA/GIF Law"	the General Incorporated Associations and General Incorporated Foundations Law of Japan* (*ippan shadan houjin oyobi ippan zaidan houjin nikansuru houritsu* 一般社団法人及び一般財団法人に関する法律) (Act No. 48 of 2006, as amended)

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"Group" or "our Group"	our Company and its subsidiaries at the relevant point of time (including, where the context requires, in respect of the period before our Company became the holding company of its present subsidiaries)
"HK$"	Hong Kong dollars and cents, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong-Japan Tax Treaty"	The Agreement between the Government of the Hong Kong Special Administrative Region of the People's Republic of China and the Government of Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income dated 9 November 2010
"Humap"	HUMAP Japan Co., Ltd.* (株式会社日本ヒュウマップ), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 1 November 1982 (registration number 0115-01-008097). Humap is a wholly-owned subsidiary of DYH
"IFRS"	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
"Independent Third Party(ies)" or "ITP"	a party or parties which is or are not connected (as defined in certain rules and regulations) to our Director, substantial shareholders or chief executives of our Company, our subsidiaries or any of their respective associates
"Institutional Shareholders"	12 corporate entities that are interested in Shares of our Company and the SSOP, each being an Independent Third Party to our Group and to each other. As at the Latest Practicable Date, our Institutional Shareholders were interested in 19,572,000 Shares in aggregate, representing approximately 3.1% of our entire issued share capital. See "History, Development and Reorganisation — Our shareholding structure" in this document
"Japan Legal Adviser"	Soga Law Office, our legal advisers as to Japanese law
"Japanese yen", "¥" or "yen"	Japanese yen, the lawful currency of Japan
"JGAAP"	Japanese Generally Accepted Accounting Principles
"Kanto Daido"	Kanto Daido Selling Co., Ltd.* (株式会社関東大同販売), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 22 January 1992 (registration number 0105-01-002705). Kanto Daido was acquired by P Leasing on 1 July 2008 and is an indirectly wholly-owned subsidiary of our Company through P Trading
"KRW"	Korean won, the lawful currency of South Korea

DEFINITIONS

"Latest Practicable Date"	5 July 2012, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
"Leases Act"	the Act on Land and Building Leases (*shakuchi shakuya hou* 借地借家法) (Act No. 90 of 1991, as amended)
"MNT"	Mongolian tugrik, the lawful currency of Mongolia
"Mongolia"	the State of Mongolia
"Mr. Horiba"	Mr. Katsuhide HORIBA (堀場勝英), an independent non-executive Director
"Mr. Kato"	Mr. Mitsutoshi KATO (加藤光利), an independent non-executive Director
"Mr. Katsuta"	Mr. Hisao KATSUTA (勝田久男), an Executive Officer
"Mr. Mori"	Mr. Haruhiko MORI (森治彦), head of the internal control committee
"Mr. Okayasu"	Mr. Shizuo OKAYASU (岡安静夫), an Executive Officer
"Mr. Sato"	Mr. Yoji SATO (佐藤洋治), an executive Director, chairman of the Board, Chief Executive Officer, and a Controlling Shareholder
"Mr. Takano"	Mr. Ichiro TAKANO (高野一郎), an independent non-executive Director
"Mr. Uno"	Mr. Yukiharu UNO (宇野幸治), an Executive Officer
"Mr. Ushijima"	Mr. Noriaki USHIJIMA (牛島憲明), a non-executive Director
"Mr. Yip"	Mr. Thomas Chun Kee YIP (葉振基), an independent non-executive Director
"Mr. Yonehata"	Mr. Hirobumi YONEHATA (米畑博文), an Executive Officer
"Mr. Yoshida"	Mr. Yukio YOSHIDA (吉田行雄), an independent non-executive Director
"Okuwa Japan"	Okuwa Japan Co., Ltd.* (株式会社オークワジャパン), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 3 July 1996 (registration number 1900-01-010013). Okuwa Japan was acquired by DYH on 1 June 2010 and is a wholly-owned subsidiary of our Company
"One Asia"	One Asia Foundation* (一般財団法人ワンアジア財団), a general incorporated foundation (*ippan zaidan houjin* 一般財団法人) established in Japan under the GIA/GIF Law on 21 December 2009 (registration number 0115-05-01395) and a substantial Shareholder. As at the Latest Practicable Date, One Asia was interested in 80,000,000 Shares, representing approximately 12.7% of our entire issued share capital

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"P Brand Planning"	P Brand Planning Co., Ltd.* (株式会社ピー商品企画), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 9 January 2004 (registration number 0115-01-010649), which was owned by DYH before its dissolution and deregistration on 24 February 2011. P Brand Planning is a Dissolved Entity
"P Insurance"	P Insurance Co., Ltd.* (株式会社ピーインシュアランス), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 28 January 2005 (registration number 0115-01-013256). P Insurance is an indirectly wholly-owned subsidiary of DYH through P Leasing
"P Leasing"	Pachinko Leasing Co. Ltd* (株式会社パチンコリース), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 31 October 2003 (registration number 0115-01-010574). P Leasing is a wholly-owned subsidiary of DYH
"P Trading"	Dynam P Trading Co., Ltd.* (株式会社ダイナムPトレーディング), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 1 July 2010 (registration number 0115-01-015964). P Trading is a wholly-owned subsidiary of our Company
"Patent Act"	the Patent Act of Japan (*tokkyohou* 特許法) (Act No. 121 of 1959, as amended)
"PDPO"	the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Personal Data Act"	the Act on the Protection of Personal Information (*kojin jyohou no hogo ni kansuru houritsu* 個人情報の保護に関する法律) (Act No. 57 of 2003, as amended)
"PRC" or "China"	the People's Republic of China excluding, for the purpose of this document, Hong Kong, Macau and Taiwan
"Relevant Trusty Power Secondees"	50 employees of Dynam who were formerly seconded to Trusty Power and returned to Dynam pursuant to the Reorganisation
"Remaining DYH Group"	DYH and its subsidiaries immediately following the Reorganisation, which excludes our Group
"Reorganisation"	the reorganisation of our Group in preparation for [●], details of which are set out in the section headed "History, Development and Reorganisation" in this document
"Relevant Period"	the period comprising the years of our Company ended 31 March 2010, 2011 and 2012

DEFINITIONS

"Retained Businesses"	as defined in the paragraphs headed "Relationship with Controlling Shareholders — Relationship with our Controlling Shareholders — Operations retained by our Controlling Shareholders" in this document, representing the businesses of the Remaining DYH Group which were excluded in our Reorganisation
"Rich-O"	Rich-O Co., Ltd.* (リッチオ株式会社), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability on 1 August 2006 under the Companies Act (registration number 0115-01-011944). Rich-O is owned as to 99.9% by Mr. Sato and is a Controlling Shareholder
"Rich-O Korea"	Rich-O Korea Co., Ltd.* (株式会社リッチオコリア), a company incorporated with limited liability in South Korea on 27 February 2006 (registration number 110111-3408732). Rich-O Korea is held as to approximately 85.19% by DYH through Dynam Investment
"RMB"	Renminbi, the lawful currency of the PRC
"Sato Family Members"	Mrs. Keiko SATO (佐藤恵子), Mrs. Yaeko NISHIWAKI (西脇八重子), Mr. Masahiro SATO (佐藤政洋), Mr. Shigehiro SATO (佐藤茂洋), Mr. Kohei SATO (佐藤公平), and Mr. Kiyotaka SATO (佐藤清隆) or any one of them, each being a family member of and an associate of Mr. Sato. Each of the Sato Family Members is a Controlling Shareholder
"Second Share Swap"	the share swap arrangements undertaken by the DYH Group on 1 December 2006, as a result of which Humap, P Leasing, Dynam Land, Genghis Khan, Dynam Data, Dynamic Design and P Brand Planning became wholly-owned subsidiaries of DYH. The Second Share Swap is part of the 2006 Restructuring, which are described in more details in the paragraphs headed "History, Development and Reorganisation — Our corporate development — 2006 Restructuring" in this document
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of our Company
"Shareholder(s)"	holder(s) of the Shares
"Shinrainomori"	Shinrainomori Co., Ltd.* (株式会社信頼の森), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 3 December 2008 (registration number 0115-01-014420). Shinrainomori is a wholly-owned subsidiary of our Company

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"Shinrainomori Association"	General Incorporated Association Shinrainomori* (一般社団法人信頼の森), a general incorporated association (*ippan shadan houjin* 一般社団法人) established in Japan under the GIA/GIF Law on 3 December 2008 (registration number 0115-05-001319), the entire voting rights of which are controlled by Dynam, Okuwa Japan, Daikokuten and Cabin Plaza. Shinrainomori Association is a subsidiary undertaking of our Company by virtue of Schedule 23 of the Companies Ordinance and is therefore a subsidiary of our Company under the [●]
"SOP Guidance"	Guidance concerning Stock Ownership Plans* (*Mochikabu-seido ni kansuru gaidorain* 持株制度に関するガイドライン), issued by the Japan Securities Dealers Association on 5 June 2008
"South Korea"	the Republic of Korea
"Specified Family Company"	a company in Japan that is deemed to be directly or indirectly controlled by one shareholder and its related persons, and as a result is subject to additional corporation tax on excess retained earnings, defined as the excess of undistributed profits in an accounting period over the largest of (i) ¥20 million (reduced proportionately where the accounting period is less than 12 months), (ii) 40% of the taxable income, or (iii) 25% of the paid-in capital less accumulated retained earnings at the end of the period (excluding the earnings for the period). The tax rate ranges from 10% to 20%, depending on the amount of excess retained earnings. We are classified as a Specified Family Company because Mr. Sato and the Sato Family Members together were interested in over 50% of (i) DYH during the Relevant Period and (ii) the Group through their holdings in the Company subsequent to the Company Split
"sq.m."	square metre
"SSOP"	DYNAM Suppliers Stock Ownership Plan* (ダイナムグループ取引先持株会), an association (*minpoujou no kumiai* 民法上の組合) established by DYH under the Civil Code on 21 May 2008 and an Institutional Shareholder. The SSOP is a discretionary trust that grants entitlement rights Shares in our Company to the suppliers of our Group. See "History, Development and Reorganisation — Our shareholding structure" in this document
"Stamp Duty Ordinance"	Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong)
"subsidiary(ies)"	has the meaning ascribed to it under Section 2 of the Companies Ordinance
"substantial Shareholder(s)"	has the meaning ascribed to it under certain rules and regulations
"Tax Adviser"	Murayama CPA Office

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"Three Committees"	the audit committee, remuneration committee and nomination committee established under our Board of Directors
"Trusty Power"	TRUSTY POWER Co., Ltd.* (株式会社 TRUSTY POWER), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability under the Companies Act on 1 February 2007 (registration number 0115-01-012502). Trusty Power is a wholly-owned subsidiary of DYH
"United States" or "U.S."	the United States of America, including its territories and possessions and all areas subject to its jurisdiction
"unregistered owner(s)"	a person who has, prior to a Share certificate having been lost or destroyed, acquired valid title over the relevant Shares without registering such acquisition in our share register before such loss or destruction. See "Material Shareholders' Matters under Japanese Law — Lost/ destroyed Share certificates — General procedures for a lost/destroyed registration — Procedures applicable to unregistered owner"
"US$"	United States dollars, the lawful currency of the United States
"X-Golf"	X-GOLF JAPAN Co., Ltd.* (株式会社 X-GOLF JAPAN), a stock company (*kabushiki-gaisha* 株式会社) incorporated in Japan with limited liability on 1 June 2011 (registration number 0115-01-016810). X-Golf is a wholly-owned subsidiary of DYH
"Yano Research"	Yano Research Institute Limited, a private marketing research and consulting firm
"2006 Company Split"	the company split arrangements undertaken by DYH on 1 August 2006, as a result of which Rich-O was incorporated. The 2006 Company Split is part of the 2006 Restructuring, which is described in more details in the paragraphs headed "History, Development and Reorganisation — Our corporate development — 2006 Restructuring" in this document
"2006 Restructuring"	the restructuring arrangements undertaken by DYH in 2006 comprising the 2006 Company Split, the First Share Swap and the Second Share Swap, which are described in more details in the paragraphs headed "History, Development and Reorganisation — Our corporate development — 2006 Restructuring" in this document
"%"	per cent

* *Translated English names of Japanese natural persons, legal persons, government authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purpose only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this document as they relate to us. Some of these definitions may not correspond to standard industry definition.

"anti-social force"	an organisation or individual who pursues economic benefit through violence, threat or fraudulent methods as defined in the Guidelines for Enterprises to Prevent Damage caused by Antisocial Organisations (*kigyo ga hanshakai seiryoku niyoru higai wo boushi surutameno shishin* 企業が反社会的勢力による被害を防止するための指針) published on 19 June 2007
"attacker"	a larger pocket in a pachinko machine's playing field which opens for limited periods of time during jackpot mode
"bonus round"	a mode of a pachislot game triggered by matching certain combinations of images on the reels during which a larger number of tokens may be released
"G-prize"	a decorative plastic card with a small embedded piece of gold or silver or a small coin-shaped pendant of gold or silver
"G-prize mark-up"	the excess of the monetary value of the number of pachinko balls or pachislot tokens required to collect a G-prize over the cost of the G-prize paid by the hall operator
"G-prize wholesaler"	an independent party in the business of supplying G-prizes to pachinko halls
"general prize"	any prize offered by a pachinko hall that is not a G-prize
"gross pay-ins"	the amount received from pachinko balls and pachislot tokens rented to customers less unutilised balls and tokens
"gross payouts"	the aggregate cost of G-prizes and general prizes exchanged by customers for pachinko balls or pachislot tokens collected
"high playing cost machines"	pachinko machines with a playing cost of 4-yen per pachinko ball or pachislot token and pachislot machines with a playing cost of 20-yen per pachinko ball or pachislot token
"IC card" or "pre-paid IC card"	a card purchased by pachinko hall customers to store cash value, which can be used to rent pachinko balls or pachislot tokens
"island"	a long row of approximately 10 to 40 pachinko or pachislot machines in a pachinko hall
"jackpot mode"	a mode of a pachinko game triggered by certain winning combinations of images on the screen in the centre of the field of play, during which the attacker opens

GLOSSARY OF TECHNICAL TERMS

"jet counter"	a device that automatically counts pachinko balls or pachislot tokens collected and issues a printed ticket displaying the number of balls or tokens collected
"low playing cost machines"	pachinko machines with playing costs of 0.5-yen, 1-yen, 1.25-yen, 2-yen and 2.5-yen per pachinko ball or pachislot token and pachislot machines with playing costs of 5-yen, 6.25-yen and 10-yen per pachinko ball or pachislot token
"national brand machines"	standard pachinko or pachislot machines manufactured for sale by the manufacturer according to its own standards
"pachinko"	a game played on a device similar to a pinball machine which is played for entertainment and prizes
"pachinko balls" or "balls"	small metal balls used to play pachinko games
"pachinko hall"	a facility providing pachinko and/or pachislot games
"pachislot"	a game played on a device similar to a slot machine which is played for entertainment and prizes
"pachislot tokens" or "tokens"	small metal tokens used to play pachislot games
"payout ratio"	the number of pachinko balls or pachislot tokens released compared to the total number of balls or tokens played
"pins"	small, cylindrical pegs affixed on the pachinko machine's playing field
"POS system"	point of sale system used in our pachinko halls for the exchange of pachinko balls and pachislot tokens for prizes
"private brand machines"	pachinko or pachislot machines manufactured for us in accordance with specifications provided by us to the manufacturer
"prize buyer"	an independent party in the business of operating prize buying centre(s) which purchase G-prizes for cash from pachinko players outside of pachinko halls
"*Shinrai no Mori*" (信頼の森)	our pachinko hall brand and hall type featuring primarily low playing cost games in a non-smoking environment with reduced noise levels, space for players to relax and socialise, and a larger selection of general prizes, comprising, as at the Latest Practicable Date, 44 halls operated under our *Shinrai no Mori* brand
"Three Party System"	the practice under which a pachinko hall operator, a prize buyer and a G-prizes wholesaler participate in the sale and purchase of G-prizes obtained by a customer of a pachinko hall operator by playing pachinko and pachislot machines in Japan, as described in more detail in "Business — Pachinko Operations — Three Party System" in this document

GLOSSARY OF TECHNICAL TERMS

"traditional hall"	our pachinko hall type featuring primarily high playing cost games in a traditional hall environment that allows smoking, comprising, as at the Latest Practicable Date, 174 halls operated under our *DYNAM* brand and two halls operated under the Cabin Plaza brand
"trap"	a pocket at the bottom of a pachinko machine's playing field through which pachinko balls are lost
"*Yasumi Jikan*" (やすみ時間)	the pachinko hall brand operated by Cabin Plaza, Daikokuten or Okuwa Japan and featuring primarily 1-yen pachinko games and 5-yen pachislot games in a traditional hall environment that allows smoking
"*Yuttari Kan*" (ゆったり館)	our pachinko hall brand and hall type featuring primarily low playing cost games in a traditional hall environment that allows smoking, and a larger selection of general prizes; when referred to in this document as a hall type, *Yuttari Kan* comprises, as at the Latest Practicable Date, 128 halls operated under our *Yuttari Kan* brand, one hall operated under the Cabin Plaza brand, one hall operated under the *Yasumi Jikan* brand by Cabin Plaza, two halls operated under the *Yasumi Jikan* brand by Daikokuten and three halls operated under the *Yasumi Jikan* brand by Okuwa Japan

FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plan of operation;
- our capital expenditure plans;
- financing sources;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- new halls under construction or planning;
- the regulatory environment of our industry in general;
- future development in our industry; and
- general economic and political trends in Japan.

The words "aim", "anticipate", "believe", "can", "estimate", "expect", "seek", "believe", "plan", "intend", "estimate", "project", "anticipate", "may", "ought to", "will", "would" and "could", or similar expressions or the negative thereof, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- general economic, market and business conditions and levels of leisure and consumer spending;
- the commercial performance of our pachinko operations;
- the effects of competition in the pachinko industry;
- various business opportunities that we may pursue;
- pending or future legal or regulatory proceedings;
- changes in tax laws or rates;
- changes in regulatory policies, the regulatory framework and laws and regulations in relation to the pachinko industry in Japan; and
- changes in general political, economic, legal and social conditions in Japan.

Certain statements in the section headed "Financial Information" are forward-looking statements.

FORWARD-LOOKING STATEMENTS

Forward-looking events or circumstances contemplated in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contemplated in this document, whether as a result of new information, future events or otherwise except as required by applicable laws, rules and regulations. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider all of the information in this document, including the risks and uncertainties described below. You should pay particular attention to the fact that we conduct our operations in Japan and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition, results of operations and cash flows could be materially and adversely affected by any of these risks.

RISKS RELATING TO G-PRIZE WHOLESALERS AND PRIZE BUYERS

Our ability to operate our business is dependent upon the services provided by G-prize wholesalers and prize buyers.

Japanese law and regulations prohibit any flow of cash, whether direct or indirect, from pachinko halls to customers. The pachinko industry has therefore developed such that the participation of three parties — the hall operator, the G-prize wholesaler and the prize buyer — is required in order to maintain compliance with relevant laws and regulations, including the Penal Code of Japan. We rely upon the continued services of the prize wholesalers from whom we source G-prizes, as well as of the prize buyers. For the years ended 31 March 2010, 2011 and 2012, approximately 96.9%, 96.9% and 97.6%, respectively, of the prizes claimed at our halls, in terms of our total gross payouts, were G-prizes.

We enter into agreements with our G-prize wholesalers pursuant to which we purchase G-prizes for use as prizes in our pachinko halls; we also enter into lease agreements with our G-prize wholesalers pursuant to which we lease to them premises on the parcel of land on which the relevant pachinko hall is located, which the G-prize wholesaler then subleases to a prize buyer. We currently have non-exclusive relationships with eight G-prize wholesalers, who in turn have arrangements with prize buyers with respect to our pachinko halls. The termination of any of our arrangements with our G-prize wholesalers, or of the arrangements between any of our G-prize wholesalers and the prize buyers with whom they conduct business, would cause a disruption in our business. We would have to seek arrangements with other G-prize wholesalers, who would then need to establish arrangements with prize buyers. The arrangements and dealings between the G-prize wholesalers and the prize buyers are beyond our control. We or they may not be able to establish new arrangements on terms acceptable to us or them or at all, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be adversely affected by any breach by the G-prize wholesalers or prize buyers of the independence requirements adopted under the Three Party System.

Pachinko and pachislot operations are regulated as part of the entertainment industry under the Amusement Business Law, which prohibits any flow of cash, whether direct or indirect, from pachinko halls to customers. Therefore, we, the wholesalers from which we obtain G-prizes, and the prize buyers to which our customers may sell their G-prizes for cash are required to maintain independence from each other. Although the G-prize wholesalers and prize buyers are third parties over which we exercise no control outside of our contractual relationship with the prize wholesalers, if we become aware of a lack of independence between any of our G-prize wholesalers and the prize buyers they contract with, we would be required to remedy the situation by either ceasing our transactions with the relevant wholesaler or requesting the wholesaler to cease its transactions with the relevant prize buyer. If we cease transactions with a wholesaler and enter into arrangements with a new wholesaler, all the prize buyers associated with the prior wholesaler would also be replaced or be required to enter into new arrangements with the new wholesaler, which could result in a disruption to our business operations at the affected pachinko halls.

RISK FACTORS

RISKS RELATING TO DIFFERENCES IN RIGHTS AND REQUIREMENTS UNDER JAPANESE LAW

You may face difficulties in protecting your interests because we are incorporated under the laws of Japan and these laws may provide different rights to Shareholders than the laws of other jurisdictions.

Our Company was incorporated under the laws of Japan. Our corporate affairs are governed by our Articles of Incorporation and by Japanese law. Legal principles relating to matters such as the validity of corporate procedures, directors' and executive officers' fiduciary duties and liabilities, and shareholders' rights under Japanese law may be different from those that would apply to a company organised in other jurisdictions. You may have more difficulty in asserting your rights as a Shareholder of our Company than you would as a shareholder of a company organised in other jurisdictions.

Specifically, you should note the following:

Share unit system

All stock companies *(kabushiki-gaisha* 株式会社*)* in Japan, such as our Company, may, through the passing of a special resolution by their shareholders, adopt a share unit system whereby a holder of a specific number of shares may cast one vote, but a holder of less than such specified number will not have any entitlement to vote. Our Company will not utilise a share unit system but we cannot assure you that we will not adopt such a system in the future, or that a share unit system would not adversely affect Shareholders' rights.

Compulsory acquisitions

Under the Companies Ordinance, a shareholder that holds 10% or less of a company has the right to require a third party that has acquired 90% or more of such company in a tender offer to buy such minority shareholder's shares from it following expiry of the tender offer period. There is no equivalent provision under Japanese law.

Dividend distributions

Under our Articles of Incorporation, dividend distributions may generally be approved by our Board of Directors and do not require Shareholder's approval. See "Material Shareholders' Matters under Japanese Law — Dividends — Restrictions on dividend distributions".

Alternative proposal

Japanese law provides that where a proposal (such as the appointment of a Director) is an agenda item for a Shareholders' meeting, any Shareholder with at least one vote may, without prior notice to our Company, make a counter proposal to such original proposal at that Shareholders' meeting to be voted on so long as the counter proposal did not fail to receive at least 10% of votes at any Shareholders' meeting within the last three years. Therefore, Shareholders who do not attend a Shareholders' meeting in person or who are not represented at such meeting by a proxy may lose the chance to vote on a spontaneous counter proposal. However, if a Shareholder casts a written vote in advance in favour of an original proposal, the written vote will be counted as a vote against any counter proposal. If

a Shareholder does not cast (i) written votes in advance or (ii) written votes in advance against the original proposal, he will be deemed not to have voted in favour of or against a counter proposal.

In addition, our minority Shareholders may have different protections under Japanese law than they would have under the laws of Hong Kong. For example, Shareholders holding a 10% interest in our Shares may initiate litigation to dissolve our Company in certain circumstances.

Our Group and holders of our Shares may be subject to certain Japanese law and regulations relating to taxation that may be different from those under the laws of Hong Kong, including in particular those relating to the taxation of dividends.

We are required under Japanese law to withhold tax prior to paying dividends. In general, Shareholders interested in less than 3% of all the issued Shares of our Company who are neither Japanese residents nor corporations established in Japan are subject to a withholding tax of 7% and 7.147%, respectively, for dividends due and paid on or before 31 December 2012 and 31 December 2013. See "Material Shareholders' Matters under Japanese Law — Dividends — Japanese withholding tax for dividend payments" for detailed withholding tax rates. Shareholders who are either residents in Hong Kong or corporations established in Hong Kong without any permanent establishment in Japan are entitled to a reduced withholding tax rate not exceeding 10% (or not exceeding 5% for corporate Shareholders interested in 10% or more of the voting Shares of our Company for the six months preceding the record date for dividend distribution) under the Hong Kong-Japan Tax Treaty. See "Material Shareholders' Matters under Japanese Law — Dividends — Japanese withholding tax for dividend payments — The Hong Kong-Japan Tax Treaty" for the application procedures for such reduced withholding tax rate.

Our Share transfer procedures, which requires a bearer of Share certificate to present a duly [●] and executed instrument of transfer and/or contract, may be challenged in a court of Japan.

Generally speaking, Japanese law recognises a bearer of a share certificate as the legal and beneficial owner of the shares represented by such share certificate, whether or not that person's name appears on such share certificate. Japanese companies are generally required to register bearers of share certificates as a shareholder in their respective share registers unconditionally unless they have *reasonable grounds* not to do so. It is therefore possible for title to a Japanese company's shares to be transferred by mere physical delivery of share certificates without the transferor and transferee having signed any transfer document.

Our Company will not follow these general provisions under Japanese law. We will not register a bearer of our Share certificate as a Shareholder in our share register unless and until he/she is able to present an instrument of transfer and/or a contract note duly [●] and executed by such bearer (as transferee) and the record Shareholder whose name appears on the relevant Share certificate and our share register (as transferor).

It is possible for a Shareholder to initiate legal proceedings against us in relation to our Share transfer procedures. Failure to successfully defend ourselves in such legal proceedings could lead to monetary compensation to the relevant stakeholders and an administrative fine of up to ¥1 million. Our Company may also be required by a court order to register a bearer of our Share certificate as a Shareholder in our share register.

Bearers of a Share certificate registered as lost or destroyed are also required to present a duly [●] and executed instrument of transfer before they can be registered as a Shareholder in our share register. This requirement gives rise to similar risks for Shareholders as our Share transfer procedures as described above. See "Material Shareholders' Matters under Japanese Law — Lost/Destroyed Share certificates" for further details.

There are significant risks associated with physical possession of Share certificates.

Shareholders who elect to physically possess (either personally or through a third party on their behalf) our Share certificates run the risks of an unauthorised third party coming into possession of such Share certificates and requiring our Company in a Japanese court to register him/her as a Shareholder in our share register in the manner described in the preceding risk factor. If our Company is required by a Japanese court order to register an unauthorised third party as a Shareholder without a duly executed and [●] instrument of transfer and/or contract note, the equity interests of the original Shareholder on record may be materially and adversely affected.

Furthermore, loss or destruction of Share certificates may have serious implications on your equity interests in our Company and the Shareholders' rights associated therewith. If a Share certificate registered as lost is recovered by an unauthorised third party, it may become necessary for the record Shareholder to assert his/her title in a court of Japan. Failure to do so could lead to misappropriation of your shareholding interests.

A Shareholder who has surrendered his Share certificate to our Company may be subject to a waiting period of up to six business days before a new Share certificate is re-issued.

To mitigate the risk of an unauthorised third party coming into possession of their Share certificate, Shareholders may surrender their Share certificates to us, in which case such surrendering Shareholder's legal ownership would instead be reflected on our share register. However, Shareholders who have surrendered their Share certificates will need to request a re-issue before being able to effect a transfer of the Shares. It generally takes a period of up to six business days to process a re-issue of new Share certificates substituting surrendered Share certificates to a Shareholder who has surrendered his Share certificate to our Company. During this waiting period, he will be unable to transfer or dispose of his Shares.

A Shareholder who loses his share certificates will be subject to limitations on his rights as Shareholder.

If a Shareholder loses his physical Share certificate, he will be subject to a one-year waiting period during which time he will be unable to transfer his Shares. In addition, during the one-year waiting period after the physical share certificate is lost or destroyed, any dividends payable will be paid to the Shareholder listed on the share register, and all rights associated with the Shares will generally remain with the Shareholder listed on the share register. In addition, a Shareholder will be required to prove legal title to such Shares in accordance with the relevant procedures under Japanese law, and failure to do so may result in the loss of rights associated with the Shares. For more information on lost or destroyed share certificates, see "Material Shareholders' Matters under Japanese Law — Lost/destroyed Share certificates".

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Our Company was incorporated under the laws of Japan. All our current operations and administrative and corporate functions are conducted in Japan, and substantially all of assets and our subsidiaries are located in Japan. In addition, most of our Directors and Executive

Officers reside within Japan, and most of the assets of our Directors and Executive Officers are located within Japan. As a result, it may not be possible to effect service of process outside Japan upon any of these persons or our Company, or to enforce any judgments obtained in courts outside of Japan against them or us. As a result, judgments of a court in a foreign jurisdiction related to any matter not subject to a binding arbitration provision may not be recognised or enforced in Japan. In addition, it is uncertain whether Japanese courts would be competent to hear the original actions brought against us or such persons predicated upon the laws of other jurisdictions.

RISKS RELATING TO OUR BUSINESS

We face intense competition in Japan.

The pachinko business in Japan is highly competitive. As of 2010, there were approximately 4,100 large and small pachinko hall operators throughout Japan. As at the end of 2010, we operated 350 pachinko halls out of a total of approximately 12,500 halls in Japan. Although we operate the largest number of halls among all hall operators in Japan, due to the fragmented nature of the pachinko industry, our market share based on number of halls is approximately 2.8%. Our major competitors are large pachinko operators, who have extensive experience and an established presence in the pachinko business as well as the capital resources to implement expansion plans. They may have greater access to financial, marketing or management resources than we do, have greater brand recognition or provide a different array of pachinko and other games. We cannot assure you that our development strategies for our pachinko halls will successfully compete with those of our competitors.

In addition, we face competition from other types of entertainment and gaming activities, including offshore gaming, web-based gaming, and potentially interactive gaming channels. For example, social networking websites in Japan such as Mixi, and mobile phone gaming applications such as Mobage, have recently introduced alternative gaming platforms which may compete with our pachinko gaming business. Horse racing, which is run by the Japan Racing Association and local government, may also compete with us. We may also face competition from casinos and other gaming venues. In particular, the Japanese government has been considering proposing legislation to approve the operation of a casino industry in Japan, with entry into the casinos proposed to be controlled by a system of identity checks as well as entry fees in order to discourage gambling dependency. The contemplated bill is supported by the government in part as a way to generate tax revenues to be used to contribute to the country's recovery and rebuilding after the Great East Japan Earthquake.

If our current or target customers choose to participate in these activities rather than our pachinko games, our operations and revenue would be negatively impacted. If we cannot effectively compete with our competitors, our business, results of operations, financial condition and prospects may be materially and adversely affected.

Our strategy of broadening the demographic appeal of pachinko may not be successful.

We have invested a significant amount of time, funds and other resources in our strategy of targeting the leisure market by emphasising the entertainment, rather than the gaming, aspect of pachinko. A key part of this strategy has been to introduce our low playing cost, non-smoking halls under our *Shinrai no Mori* brand. We have incurred significant capital expenditures in connection with our introduction of this hall type, particularly construction expenses. Because these halls feature more advanced infrastructure such as air purification systems and other noise-minimising measures, additional equipment such as individual jet counters at each machine, and structural features such as separate relaxation areas and closed-off smoking areas, they cannot be converted from existing traditional hall types. In the years ended 31

March 2010, 2011 and 2012, we incurred approximately ¥10,142 million, ¥6,660 million and ¥1,995 million (equivalent to approximately HK$188 million), respectively, in capital expenditures related to the opening and acquisition of pachinko halls. Our *Shinrai no Mori* halls, in the aggregate, have not yet contributed positively to our overall profitability. However, as certain of our individual *Shinrai no Mori* halls are now generating revenues that exceed hall operating expenses, we expect that they will, in the aggregate, contribute to our profitability in the future.

This strategy is based on what we believe to be a relatively new industry trend, and our target market for this hall type comprises a new and still-developing customer base for the industry. As pachinko is relatively less popular among the younger generation, a key element of our strategy in our *Yuttari Kan* and *Shinrai no Mori* hall brands is to appeal to a broader range of customers, such as women, younger players, and other non-traditional pachinko customers. According to Yano Research, the average age of male and female pachinko players was approximately 44 and 50, respectively, and the average age of male and female pachislot players was approximately 34 and 38, respectively. In addition, the majority of pachinko players are from the 40 to 69 age group, representing 52.5% of the entire male pachinko player population and 65.6% of the entire female pachinko player population. Our results of operations and prospects may be adversely affected as a result of the aging population in Japan and our strategy to broaden the demographic appeal of pachinko may not be successful. In addition, the new services and features we have introduced as part of our strategy of targeting the leisure market may not enjoy customer acceptance or successfully compete with the offerings of our competitors. Further, we may be unable to deliver new offerings on a commercially viable or timely basis, or at all. If we fail to successfully introduce new services and features, broaden our range of customers or implement our growth strategies, our revenue may not grow, which may have a material adverse impact on our business, financial condition, results of operations and prospects.

We face the risk of fraud or cheating.

Players may attempt to commit fraud or cheat in order to increase the number of pachinko balls and pachislot tokens they collect. Acts of fraud or cheating could involve, among others, the use of counterfeit pachinko balls or pachislot tokens, the use of counterfeit G-prizes, tampering with our machines and systems, or other tactics, possibly in collusion with our employees. For example, instances of illegal or fraudulent activity of a minor or insignificant nature by customers in our pachinko halls are detected approximately once or twice per month and reported to the prefectural police. Examples of these activities include a customer opening a pachinko machine and attaching a device to the machine that inflates its winning rate, or using a device to emit microwave or radio interference with computerised components of the pachinko machines, or other attempts to play the machine without inserting the required payment. We did not identify any material failure of our anti-cheating and anti-counterfeiting surveillance systems during the Relevant Period and up to the Latest Practicable Date; however, any failure by us in discovering such acts or schemes in a timely manner could result in losses in our pachinko operations. An allegation or a finding of improper conduct on our part, or on the part of one or more of our current or future employees or management that is attributable to us, or an actual or alleged system security defect or failure attributable to us, could be deemed to be a regulatory breach for which we could be subject to revocation or suspension of our operating license for the relevant pachinko hall. In addition, any such occurrence could lead to negative publicity, which could damage our reputation. This would materially and adversely affect our business, results of operations, financial condition and prospects.

RISK FACTORS

We face the risk of anti-social forces being involved in the pachinko industry.

The pachinko industry has historically been linked to anti-social forces. While we have in place various processes and procedures designed to ensure that our operations remain clear of anti-social forces, we cannot assure you that we will be able to prevent anti-social forces from interfering in our pachinko operations. For example, we have in the past experienced incidences of vandalism and other acts of aggression from anti-social forces due to our refusal to allow their involvement in our operations. In addition, anti-social forces may engage in theft of cash, fraud or other organized criminal activity through involvement with prize buyers or other third parties over whom we have no control. Failure to prevent anti-social forces from being involved in the pachinko industry could materially and adversely affect our business, results of operations and financial condition. In addition, negative publicity related to the pachinko industry and anti-social forces could adversely affect the reputation and perception of our industry as a whole, which would also impact our reputation.

We rely heavily on our information technology systems, and if these systems are impaired or interrupted, our operations may be seriously disrupted.

We depend in large part upon our information technology systems, which store, retrieve, process and manage substantial amounts of real-time data and information, including personal information of our members that is stored in our membership database. We rely on these systems in making many of our business decisions and to develop strategies with respect to machine replacement and procurement, marketing, prize procurement and inventory management. Information technology systems are inherently susceptible to the risk of hardware and software failures, including network failures, the occurrence of any of which would materially impact our ability to conduct our business. In addition, our network security may be compromised due to incidents of "hacking", which involves efforts to gain unauthorised access to information or systems or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment. We may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches. If unauthorised persons are able to penetrate our network security, they could misappropriate personal information regarding our members, or cause interruptions in our services. See "— We may be subject to liability for failure to maintain compliance with Japan's privacy laws in connection with our membership system and database." In addition, hacking and computer viruses could expose us to a material risk of loss or litigation and possible liability under Japan's privacy laws. See "Laws and Regulations — Personal Information Protection". Further, they could result in significant damage to our hardware and software systems and databases, disruptions to our business activities, including to our e-mail and other communications systems, breaches of security and the inadvertent disclosure of confidential or sensitive information, damage to our reputation, and other material adverse effects on our operations.

If we lose the services of our third-party information technology systems contractor, our operations may be seriously disrupted.

Our information technology network was developed in conjunction with, and is maintained by, a third party contractor. We rely on our third party contractor to maintain the network and infrastructure underlying our information technology systems, to provide technical assistance to us on an ongoing basis, and to upgrade our systems when and as necessary. Any failure by our third party contractor to maintain the satisfactory performance, reliability, security and availability of our network infrastructure may adversely affect our ability to operate our business in an efficient and effective manner.

The termination of our arrangements with our third party contractor for any reason could cause a disruption in our business operations. In the event of such a termination, we would have to seek other means of maintaining our information technology systems, which may include the acquisition of equipment, the licensing of software and the development, either internally or through independent consultants or third party contractors, of new software. If we are unable to design, develop, implement and/or maintain, in a cost-effective manner, information systems that provide the capabilities necessary for us to compete effectively, or if we suffer any interruption or loss of our information processing capabilities for any reason, our operations could be materially disrupted.

Our business may be adversely affected by the continuing effects of the Great East Japan Earthquake and ensuing events.

On 11 March 2011, the Great East Japan Earthquake occurred off the eastern coast of Japan and was followed shortly thereafter by a large tsunami that struck a vast swath of Japan's Pacific coast. The Great East Japan Earthquake and tsunami resulted in over 15,000 deaths and significant property damage in Japan, particularly in the Tohoku region, including the subsequent accidents at nuclear power plants in Fukushima Prefecture. In the immediate aftermath of the earthquake and tsunami, there was a significant short-term negative impact on the economy. In addition to the initial damage caused by the Great East Japan Earthquake and tsunami, the damage to the nuclear power facilities in Fukushima Prefecture resulted in electricity shortages and related rolling blackouts through much of the Tohoku and Kanto regions, which include Tokyo. It is uncertain whether other significant collateral events will happen in the future, and it is likely that the Japanese economy will remain unstable until the full extent of the damage from the earthquake and collateral events can be adequately assessed.

While we did not suffer severe direct losses of employees or property as a result of the earthquake, we temporarily shut down operations at approximately 100 of our pachinko halls, including our 15 halls in the Fukushima Prefecture. All of the affected pachinko halls were re-opened and in operation by 7 October 2011. The temporary closure of these locations resulted in an adverse impact on our financial results, as we recorded losses on earthquake of approximately ¥195 million and ¥979 million (equivalent to approximately HK$92 million) for the years ended 31 March 2011 and 2012, respectively.

In addition, the electricity shortages and related rolling blackouts throughout parts of Japan have adversely impacted our business operations, as pachinko halls inherently consume large amounts of electricity. Energy conservation measures have been implemented throughout Japan, particularly during the summer months, as a result of which we were required, between 1 July and 30 September, to close our halls three days per month in areas where the electricity is supplied by Tokyo Electricity Co. and two days a per month where the electricity is supplied by Tohoku Electricity Co., Inc.

Many suppliers, including manufacturers of pachinko and pachislot machines, have had to close, suspend or relocate their manufacturing operations, and have therefore experienced slowdowns or halts in production and interruptions in logistics services as a result of the Great East Japan Earthquake and tsunami. We have consequently experienced difficulties in procuring new pachinko and pachislot machines, and have had to increase our reliance on second-hand purchases from third party dealers and prolonged the usage of existing machines. Difficulties in procuring new machines has also affected our marketing strategy, as prior to the earthquake, much of our marketing was focused on our practice of frequently updating and replacing our machines to keep pace with rapidly changing gaming trends and customer preferences.

The duration and magnitude of the total impact on the Japanese economy are unclear. Significant funds will be required for Japan's reconstruction efforts; however, there is uncertainty regarding whether Japan's political leaders will timely formulate effective solutions to provide the necessary financial support and to develop other policies in response to the Great East Japan Earthquake. In particular, since the Japanese Cabinet submitted a bill to the Diet of Japan in June 2011, there has been considerable political debate regarding a compensation scheme for damages related to the nuclear accidents as well as a scheme to financially support electric utilities that are subject to the damage claims. Many aspects of the proposed legislative solution, including the actual implementation of such schemes, remain uncertain. Depending on the timing and approach of any policy or scheme, significant costs may be incurred by the Japanese government, electric utilities or a broad range of participants in the Japanese economy, which in turn may significantly affect the Japanese economy. These various issues may cause significant and unforeseeable adverse effects on the Japanese economy and on our business, results of operations, financial condition and prospects.

Our business may be affected by downturns in the economy, economic uncertainty and other factors affecting discretionary consumer spending.

We believe that the pachinko industry has traditionally been relatively unaffected by macro-economic conditions; however, an extended economic downturn or continued uncertainty in global and regional economies could negatively affect demand for the type of gaming and entertainment services we offer. Changes in discretionary consumer spending or consumer preferences could be driven by factors such as perceived or actual general economic conditions, a weakening job market, or an actual or perceived decrease in disposable consumer income and wealth. These and other factors have in the past reduced consumer demand for the gaming and entertainment services we offer and have adversely affected our gaming business, results of operations and financial condition, and if we are not successful in responding to future changes in consumer spending trends, could further affect our future prospects.

Recent global market and economic conditions have been unprecedented and challenging, with recessionary conditions persisting in most major economies through 2010. While the global economy showed some signs of moderate recovery during 2010, difficult economic conditions returned in 2011 and have continued into 2012, in part due to the debt crisis in Europe. The Japanese economy, which went into a technical recession in late 2008 that intensified through early 2009, showed some signs of a modest recovery during 2010 and 2011 due in part to the economic stimulus measures implemented by the government in 2010. However, as the government ended many of the stimulus measures during the first part of 2011, the Japanese economy may again begin to weaken. Furthermore, the Great East Japan Earthquake that occurred on 11 March 2011 again triggered a technical recession in the Japanese economy, significantly affecting business and consumer spending. See "— Our business may be adversely affected by the continuing effects of the Great East Japan Earthquake and ensuing events."

Continued weakness in the global economy or in the economy of Japan, where we conduct all of our business operations and where the vast majority of our patrons reside and/or generate their income, may result in a reduction of the number of patrons, a reduction in the frequency of visits by these patrons, or a reduction in the amount of money spent by these patrons in our pachinko halls. Any reduction in consumer demand for the services we offer would materially and adversely affect our operating revenues and, as a result, our business, financial condition and results of operations.

RISK FACTORS

We may be subject to liability for failure to maintain compliance with Japan's privacy laws in connection with our membership system and database.

We are subject to Japan's Personal Data Act (as amended), which regulates the collection, use, handling, and transfer of personal information. See "Laws and Regulations — Personal Information Protection". We maintain an extensive membership database that collects, stores and analyses information on our approximately 2.6 million registered members, including personal information such as each member's name, address, age, gender and date of birth. The mishandling of any of our members' personal information, such as through internal leaks, misappropriation by an unauthorised third party, or other unauthorised use by us or a third party, is required to be reported to the member whose information has been mishandled, as well as to the relevant authorities and the public, and could subject us to civil and/or criminal liability and significantly damage our reputation.

We may require external debt or equity financing to expand our business as planned, which may not be available on satisfactory terms or at all.

We have in the past funded our business and operational expansion primarily through cash generated from our operations and external bank borrowings. We may require additional funding in the future to further expand our business, which we may raise through external financing. Our ability to obtain debt or equity financing on acceptable terms depends on a variety of factors that are beyond our control, including market conditions, investors' and lenders' perceptions of, and demand for, debt and equity securities of pachinko companies, credit availability, and interest rates; the availability of, and likely terms for, debt financing may be adversely affected by recent developments in the global economy. As a result, we cannot assure you that we will be able to obtain sufficient funding from external sources as required on terms satisfactory to us, or at all, to finance future expansion. If we raise additional capital through the sale of equity, or securities convertible into equity, further dilution to our then-existing shareholders will result. If we raise additional capital through the incurrence of debt, our business may be affected by the amount of leverage we incur. For instance, such borrowings could subject us to covenants restricting our business activities, servicing interest would divert funds that would otherwise be available to support our operations or development activities, and holders of debt instruments would have rights and privileges senior to those of our equity investors. If we are unable to obtain adequate funding on a timely basis, we may not be able to carry out parts of our growth strategy or to maintain our growth and competitiveness, which could materially and adversely affect our business, results of operations, financial condition and prospects.

The failure to fulfil conditions imposed under our loan facilities may limit our ability to conduct our operations or obtain additional financing.

As at 31 May 2012, we had outstanding indebtedness of ¥21,566 million (equivalent to approximately HK$2,136 million as calculated using the rate of ¥10.10 to HK$1.00, which was the exchange rate prevailing on 31 May 2012). See "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness". Our loan facilities and credit agreements impose certain conditions, including financial and operating covenants, that restrict our ability to engage in certain transactions. In particular, our credit facilities require, among other things, our Group companies to maintain specified financial ratios and net assets, and contain restrictions on ordinary losses, which may limit our ability to conduct our operations or obtain additional financing.

Although we have not breached any of these covenants during the Relevant Period, our ability to comply with these covenants in the future may be affected by events beyond our control, including prevailing economic, financial and industry conditions. As a result, we may not be able to comply with these covenants, including with respect to making our required payments

due to insufficient cash flow. Our failure to comply with any of these covenants or to meet our payment obligations could result in an event of default which, if not cured or waived in time, could result in the acceleration of those and other outstanding debt obligations and the enforcement of security and guarantees given in respect of them. We may not have sufficient working capital or liquidity to satisfy our debt obligations in the event of an acceleration of all or a portion of our outstanding obligations.

Our pachinko halls, including those that we may acquire, may not perform as expected.

Our growth strategy includes the continued opening of new pachinko halls and acquisition of halls when favourable opportunities arise. See "Business — Business Strategies". We have incurred and will continue to incur significant capital expenditures associated with the construction and acquisition of new pachinko halls. In the years ended 31 March 2010, 2011 and 2012, we incurred approximately ¥10,142 million, ¥6,660 million and ¥1,995 million (equivalent to approximately HK$188 million), respectively, in capital expenditures related to the opening and acquisition of pachinko halls. We cannot assure you that we will be able to maintain or improve on our overall profitability. In addition, we may not be able to obtain the necessary financing for our expansion, improvement and acquisition plans on favourable terms, or at all. We also cannot assure you that an increase in the number of our pachinko halls will lead to a corresponding increase in our operating revenue, or that we will be able to maintain or grow our market share in the future or otherwise compete effectively. Nor can we assure you that we will be able to successfully integrate the halls we acquire into our existing business operations. Any failure on our part to successfully implement our current plans for the improvement and acquisition of pachinko halls, or to effectively manage our growth, would adversely affect our business, financial condition and results of operations.

We depend on the continued service of key management personnel. If we fail to retain our key management personnel, our business may suffer.

Our ability to maintain our competitive position is dependent to a large degree on the continued service of our key management personnel, such as Mr. Yoji Sato, our Chief Executive Officer, Mr. Kohei SATO, President of Dynam and our other management personnel such as our zone and hall managers. In particular, our business is structured so that each department is run by a department head, each of whom reports directly to either our Chief Executive Officer or President of Dynam. Thus, Mr. Sato and Mr. Kohei SATO are the only individuals in our Group who have a collective and overall understanding of all of our operating departments. Also, consistent with common practice in Japan, we have not entered into employment contracts with our senior management or other full-time employees. See "Business — Employees". If one or more of our key executives become unable or unwilling to continue in their present positions, or if they join a competitor or form a competing company, we may not be able to fill their roles in a manner or on terms acceptable to us or at all. As a result, our business may be significantly disrupted, and we may be unable to effectively manage our business or implement our growth and development strategies, either of which could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, we do not currently carry key person insurance for every member of our senior management team. The loss of any key personnel could have a material and adverse effect on our business, cash flow, financial condition, results of operations and prospects.

RISK FACTORS

If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud.

We have a limited number of accounting personnel and other resources with which to address our internal controls over financial reporting. In this regard, effective internal controls over financial reporting is necessary for us to produce reliable financial reports and is important to help prevent fraud. We are in the process of training, managing and appropriately expanding our human resources and other components of our business and implementing and maintaining adequate management and financial controls to improve our internal controls, which will likely require us to incur significant costs and devote substantial management time and efforts and other resources. Our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements.

We also must continue to improve and maintain our internal controls and risk management to manage our anticipated future growth, regulatory requirements applicable to our business and the growing demands of our business operations. In this regard, any system of controls, however well designed and operated, can only provide reasonable, and not absolute, assurance that the objectives of the system are met. As such, we may be subject to risks arising in relation to our internal controls and risk management, which could have a material adverse effect on our business, results of operations and financial condition and cash flows. We continue to review our internal control policies and procedures on an ongoing basis and have implemented measures to improve and remedy certain deficiencies identified through the assistance of an independent third-party consultant. However, we cannot assure you that we will be able to successfully address these issues on an ongoing basis. Moreover, even if we are able to address existing deficiencies, we cannot assure you that there will not be new deficiencies in our internal control policies and procedures. Any such deficiency, if material or significant, could adversely affect our management's ability to monitor, evaluate and manage our business and operations, or lead to substantial business or operational risk or inaccurate financial reporting, which could have a material adverse effect on our business, results of operations and financial condition.

Our anti-money laundering policies and compliance with applicable anti-money laundering laws may not be sufficient in preventing the occurrence of money laundering activities at our pachinko halls.

We have implemented anti-money laundering policies in compliance with all applicable laws and regulations in Japan. However, we cannot assure you that these policies will be effective to prevent our pachinko operations from being exploited for money laundering purposes. Any incidents of money laundering, accusations of money laundering or regulatory investigations into possible money laundering activities involving us, our employees, or our patrons would have a material adverse impact on our reputation and our relationship with regulators, and would consequently materially adversely affect our business, financial condition, results of operations and prospects. Any serious incident of money laundering or regulatory investigation into money laundering activities would likely result in a revocation or suspension of our operating license. For more information regarding Japan's anti-money laundering regulations and our compliance measures, see "Internal Controls and Anti-Money Laundering".

We may not be able to renew leases or other contractual arrangements for the use of existing pachinko hall space, or to obtain desirable sites for the expansion of our operations, on satisfactory terms or at all.

Since our inception, it has been our strategy to actively expand our operations by increasing the number of pachinko halls we operate in various locations throughout Japan. As at 31 March 2012, we have entered into lease agreements with landowners with respect to 299 parcels of land. We have constructed our pachinko halls at 269 of those sites, and have rented the buildings in which we conduct pachinko operations at the other 30 of those sites. Our land lease agreements typically run for an initial average period of 20 years, and generally provide that we will return the land in its original condition upon expiration or termination of the lease. Because the landowners from whom we lease land hold title to the land and we only hold title to the premises we construct on the land, we are required to demolish any properties that we construct on the land and return it to the lessor as a vacant site. 15 of our land lease agreements will expire in accordance with their terms within five years after the date of this document, and 86 will expire between six and ten years from the date of this document. If we are unable to or otherwise do not renew these agreements in a timely manner and on commercially reasonable terms or at all, we would have to demolish the pachinko halls at those locations and surrender the land upon expiration of the lease term.

We cannot assure you that we will be able to identify and successfully lease or purchase desirable locations for the construction and establishment of new pachinko halls. After identifying a potential site for establishing a new pachinko hall, we must make the relevant applications and obtain construction permits pursuant to the City Planning Act (Act No. 100 of 1968, as amended) and the Building Standard Act (Act No. 201 of 1950, as amended). We must also obtain national and prefectural approval for a license to operate a pachinko business at that site. If we are unable to locate desirable sites and enter into lease agreements for sites on which we intend to construct new pachinko halls, or obtain the requisite licences and/or approvals from the relevant local authorities, we may not be able to expand our business and operations as planned. Even with the requisite permits and approvals, we cannot assure you that the halls we establish on the properties we identify will be successful or attract customers.

We may not be able to procure machines that continue to attract and retain customers as player preferences and market trends evolve over time.

As a pachinko hall operator, our revenue is dependent on the amount of money that customers spend playing on our machines. Therefore, to remain competitive and maintain customer interest, we must constantly acquire and provide new and varied pachinko and pachislot machines. Machine costs comprise a significant portion of our operating expenses. Although we have been able to realize cost efficiencies due to our operating scale and our machine procurement strategies, machine costs remain largely out of our control, and average unit prices of pachinko machines have increased steadily during the Relevant Period. While we collect information from our membership system and IT system on the utilisation and performance of our machines in order to aid our machine procurement strategy, we cannot assure you that the machines we procure and install at our pachinko halls will be well-received by our customers. We also cannot assure you that the manufacturers from whom we source our new machines will receive the requisite regulatory approvals for private brand machines we develop and purchase. In addition, we cannot assure you that we will be able to accurately anticipate changes in player preferences, industry trends or general changes in customer behaviour or preferences, such as a redirection of leisure spending to other types of leisure and entertainment activities. These factors individually or collectively could result in the reduced utilisation of, and a corresponding decrease in operating revenue generated from, our machines. If our machine procurement strategy fails to attract and retain customers, our business, results of operations and financial condition may be adversely affected.

RISK FACTORS

Our business may be adversely affected by natural disasters or disease outbreaks.

Japan is one of the most seismically active countries in the world and it also regularly experiences typhoons and other natural disasters. In the event of a large earthquake, other natural disaster or outbreak of an epidemic that impacts our employees or our ability to continue operating our pachinko facilities, or that impacts our suppliers' ability to continue their manufacturing or other operational activities, we could face significant disruptions in our business operations. For example, we were forced to temporarily close approximately 100 of our pachinko halls as a result of the Great East Japan Earthquake, resulting, among others, in lost revenue and property damage at these locations. See "— Our business may be adversely affected by the continuing effects of the Great East Japan Earthquake and ensuing events". Any such natural disaster or epidemic would also have a large impact on our customers, which could in turn decrease discretionary spending and affect demand for our offerings. See "— Our business may be affected by downturns in the economy, economic uncertainty and other factors affecting discretionary consumer spending."

In addition, there have been several outbreaks of infectious diseases in recent years, particularly in Asia. Most recently, in June 2009, the World Health Organisation (the "WHO") declared the outbreak of H1N1 influenza ("H1N1") to be a pandemic, following which the governments of many regions implemented quarantine and other preventive measures. Prior to that, during 2004, large parts of Asia experienced outbreaks of avian flu which, according to a report of the WHO in 2004, placed the world at risk of an influenza pandemic with high mortality and social and economic disruption. Potential future outbreaks of severe acute respiratory syndrome, swine flu, avian flu or other highly infectious diseases, or fears concerning such an outbreak, may adversely affect the number of visitors to our existing and planned pachinko halls. The perception that an outbreak of contagious disease may occur again may also have an adverse effect on general economic conditions in Asia.

In accordance with industry practice in Japan, we do not carry earthquake insurance. Further, we do not carry business interruption insurance. With or without insurance, damage to any of our offices, branches or pachinko halls due to fire, earthquake, typhoon, flood, terrorism, outbreaks such as the H1N1 pandemic, avian flu or other man-made or natural disasters or casualty events may materially and adversely affect our business, financial condition and results of operations.

The inherent element of chance may affect payout ratios in spite of our adherence to pachinko industry regulations and practice.

Although the Amusement Business Law sets certain limits on the payout ratios of pachinko and pachislot machines, pachinko and pachislot games are characterised by an element of chance, which is beyond our control. In addition to the element of chance, results of play are also affected by other factors, including players' skill and experience, the mix of games played, the financial resources of players and the amount of time players spend on playing pachinko and pachislot games. These factors, alone or in combination, have the potential to negatively impact our payout ratios, which may materially and adversely affect our business, results of operations and financial condition.

We recorded net current liabilities at times during the Relevant Period.

We recorded net current liabilities of approximately ¥22,776 million and ¥10,254 million at 31 March 2010 and 2011, respectively. These amounts primarily reflected balances outstanding under our credit facilities. If our current liabilities exceed our current assets, or if we otherwise

do not have sufficient working capital, we may not be able to satisfy our current liabilities, or to expand our operations as anticipated. As at 31 March 2012, we had net current assets of approximately ¥3,487 million (equivalent to approximately HK$328 million).

Our insurance coverage may not be adequate to cover all possible operational losses that we could suffer. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future.

We maintain fire insurance for our pachinko halls and operating properties from fire damage. We also maintain movable property insurance, which insures our movable property from theft and burglary, and public liability insurance for third party physical injuries and property damage, and labour and health insurance for our full-time employees. We do not carry business interruption insurance. Each policy contains certain customary exclusions; in addition, certain events such as nuclear events, labour strikes, acts of war or terrorism, and epidemic outbreaks are excluded from coverage by these insurance policies. Therefore, certain acts and events could expose us to substantial uninsured losses. We may suffer business disruption as a result of these events or be subject to claims by third parties who were injured or harmed. Our insurance may not continue to be available on commercially reasonable terms and, in any event, may not be adequate to cover all losses. If we incur losses or damages for amounts exceeding the limits of our insurance coverage, or for claims outside the scope of our insurance coverage, our business, financial condition and results of operations could be materially and adversely affected.

Moreover, we may be unable to renew or replace our existing insurance policies when they expire on commercially reasonable terms, or at all, which could result in substantially higher insurance costs, a reduction of our policy limits, certain exclusions from our coverage, an increase of our deductibles, and/or a significant increase our risk of loss or damage due to uninsured events. In addition, any failure to renew or replace an insurance policy that may be required under our various credit and other material agreements may affect our ability to operate. Failure to satisfy these requirements could result in an event of default under these credit or other material agreements and have a material adverse effect on our business, financial condition, results of operations and prospects.

Our use of derivatives to manage and reduce financing risks may adversely affect our financial condition and results of operations.

We utilise derivative instruments to reduce the risk in interest payable in financing by changing floating rates to fixed rates for our long-term loans payable. However, we may not be able to successfully manage our risk through the use of derivatives. For example, we have entered into interest rate swap contracts to manage these risks with various counterparties, but, due to reasons out of our control, our counterparties may fail to honour the terms of their derivatives contracts with us, and we may be exposed to additional risks. Alternatively, our ability to enter into derivative transactions may be adversely affected if our credit ratings are downgraded. Ineffective management of our derivatives contracts or an inability to enter into new, and maintain existing, derivatives contracts to reduce our financing risks may adversely affect our financial condition and results of operations.

Our Controlling Shareholders have the ability to exercise substantial influence or control over us, which allows them to influence or control our business in ways that might not be in the interests of other Shareholders.

Mr. Sato, Rich-O and the Sato Family Members, [●], will own a total of approximately 68.2% of our issued and outstanding Shares. As a result, for the foreseeable future, through their respective voting control, Mr. Sato, Rich-O and each of the Sato Family Members will be able to

exercise substantial influence over our operations and business strategy, such as matters related to the composition of our Board of Directors, selection of our senior management, our overall strategic and investment decisions, issue of securities and adjustment to our capital structure, amendments to our Articles of Incorporation, and other corporate actions requiring approval of our Shareholders, including a merger, consolidation or sale of our assets, or any other change of control event that may benefit our other Shareholders generally. Many of these actions are permitted to be taken without the approval of independent Directors or other Shareholders. Such voting control may discourage certain types of transactions, including those involving an actual or potential change of control. Mr. Sato, Rich-O, or the Sato Family Members may exercise control over us in ways that conflict with the interests of our other Shareholders.

From time to time, we may be involved in legal and other proceedings arising out of our operations.

We may be involved in disputes with various parties involved in the operation of our pachinko halls, including contractual disputes with suppliers and other claims of liability. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management's attention. We may also have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavourable decisions that result in penalties being imposed on us. In such cases, our business, results of operations and financial condition could be materially and adversely affected.

RISKS RELATING TO OUR INDUSTRY

Regulatory or governmental policies, or interpretations of such policies, that affect the pachinko industry in Japan could change.

The pachinko industry is subject to a variety of laws and regulations in Japan. For example, pachinko hall operators must apply for a hall operating licence from the Public Safety Commission of the prefecture where the hall is to be established. The Public Safety Commission has the authority to impose conditions on the license as well as to cancel the license or suspend operations if the pachinko hall operator violates the Amusement Business Law or other applicable laws and regulations. Many other aspects of pachinko hall operations are regulated under the Amusement Business Law, such as the maximum amount a player can spend, the method by which prizes can be awarded, the payout ratios of pachinko machines and advertising. There is limited precedent interpreting and applying the Amusement Business Law and regulations concerning the Three Party System for pachinko operations. An administrative body may issue new or modified regulations, or a court or administrative or regulatory body may render a new interpretation of current laws and regulations, which may require us to significantly change the ways in which we operate or impose additional obligations on us as a pachinko hall operator. For example, a regulation was adopted in 2004 with the aim of de-emphasising the gambling nature of pachislot games, setting a cap on the potential payout value of bonus rounds that could be accumulated during the course of play. This regulation resulted in a sharp drop in the popularity of pachislot, which adversely impacted the operating results of pachinko operators across the industry, including us. See "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Results of Operations — Policies and Regulations Relating to the Pachinko Industry".

Any future regulatory changes could be difficult to comply with, limit our ability to grow our business, or increase the time, cost and other resources required to maintain compliance, any of which could materially and adversely affect our business, result of operations, financial condition and prospects.

RISK FACTORS

Because no Japanese law explicitly and directly addresses the legality of the Three Party System on which the pachinko industry is based, there are legal uncertainties with respect to the operation of our business under the Three Party System.

The pachinko industry is currently primarily regulated by the Amusement Business Law, which also regulates the restaurant and bar industries in Japan. In particular, the Amusement Business Law prohibits awarding cash or securities to customers as a prize or buying back prizes from customers. These activities would also constitute illegal gambling under the Penal Code of Japan. In order to ensure that pachinko does not constitute gambling, the pachinko industry operates based on a "Three Party System" pursuant to which pachinko hall operators, prize wholesalers, and prize buyers operate their respective businesses independently of each other. See "Business — Pachinko Operations — Three Party System". There are currently no cases, guidelines or announcements issued by courts, administrative or regulatory bodies or other relevant authorities stating whether or not the Three Party System is either permitted by, or is not in violation of, the Amusement Business Law. We cannot assure you that the Three Party System will not in the future be deemed to violate the Amusement Business Law or that pachinko and pachislot games will not be deemed to constitute gambling activities in violation of the Penal Code of Japan. Any such determination would materially and adversely affect our business, results of operations, financial condition and prospects.

The pachinko industry is experiencing a downward trend in market size, which may have an adverse effect on our business and results of operations.

According to Yano Research, gross pay-ins for the pachinko industry have been declining since 2006, due in part to the shift towards low playing cost machines and in part to the introduction of legislation de-emphasising the gaming nature of pachislot machines. In response to this shift in customer demand, one of our business strategies has been to increase our customer base by promoting low playing cost games in an environment for entertainment rather than gambling, as reflected in our increase in the number and proportion of low playing cost machines in our pachinko halls. As a result, our gross pay-ins over the Relevant Period reflected a decline similar to the industry-wide trend, partly attributable to customers who migrated from high to low playing cost games. An overall reduction in the size of the pachinko market may have an adverse effect on our business, results of operations and financial condition.

DIRECTORS AND OTHER PARTIES

DIRECTORS

Name	Address	Nationality
Executive Director		
Mr. Yoji SATO (佐藤洋治)	4-15-9 Higashimizumoto Katsushika-ku Tokyo 125-0033 Japan	Japanese
Non-executive Director		
Mr. Noriaki USHIJIMA (牛島憲明)	2-3-10 Midoricho Hasuda-shi Saitama 349-0104 Japan	Japanese
Independent non-executive Directors		
Mr. Katsuhide HORIBA (堀場勝英)	3-38-2 Eifuku Suginami-ku Tokyo 168-0064 Japan	Japanese
Mr. Ichiro TAKANO (高野一郎)	1-12-4 Yutenji Meguro-ku Tokyo 153-0052 Japan	Japanese
Mr. Yukio YOSHIDA (吉田行雄)	Suite 934 3-4-43 Shinsuna Koto-ku Tokyo 136-0075 Japan	Japanese
Mr. Mitsutoshi KATO (加藤光利)	Room 501 37 Nandomachi Shinjuku-ku Tokyo 162-0837 Japan	Japanese
Mr. Thomas Chun Kee YIP (葉振基)	Flat B5 6/F Pak On Building 105 Austin Road Kowloon Hong Kong	Australian

DIRECTORS AND OTHER PARTIES

OTHER PARTIES

Legal Advisers to the Company

As to Hong Kong law:
Deacons
5/F Alexandra House
18 Chater Road
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As to Japanese law:
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CORPORATE INFORMATION

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Company website	www.dyjh.co.jp(1)
Audit committee	Mr. Ichiro TAKANO (高野一郎) *(Chairman)* Mr. Yukio YOSHIDA (吉田行雄) Mr. Thomas Chun Kee YIP (葉振基)
Remuneration committee	Mr. Katsuhide HORIBA (堀場勝英) *(Chairman)* Mr. Mitsutoshi KATO (加藤光利) Mr. Yoji SATO (佐藤洋治)
Nomination committee	Mr. Katsuhide HORIBA (堀場勝英) *(Chairman)* Mr. Mitsutoshi KATO (加藤光利) Mr. Yoji SATO (佐藤洋治)
Principal bankers	Mizuho Bank Ltd. Ueno Corporate Banking Department 3-16-5 Ueno Taito-ku, Tokyo 110-0005, Japan Sumitomo Mitsui Banking Corporation Ueno Corporate Business Office Division 2 4-11-4 Taito Taito-ku Tokyo, 110-0016, Japan

(1) Contents of this website do not form part of this document

INDUSTRY OVERVIEW

This section and other sections of this document contain information relating to Japan and the pachinko industry in Japan. The information has been derived from various publications, including government agencies, commissioned reports by Yano Research and EBI, and other third party sources. While we and our Directors have taken reasonable care in the extraction, compilation and reproduction of the information derived from independent sources, we cannot assure you as to the accuracy or completeness of such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Neither we nor any of our respective affiliates have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from independent sources, and such information may not be consistent with that available from other sources and should not be unduly relied upon.

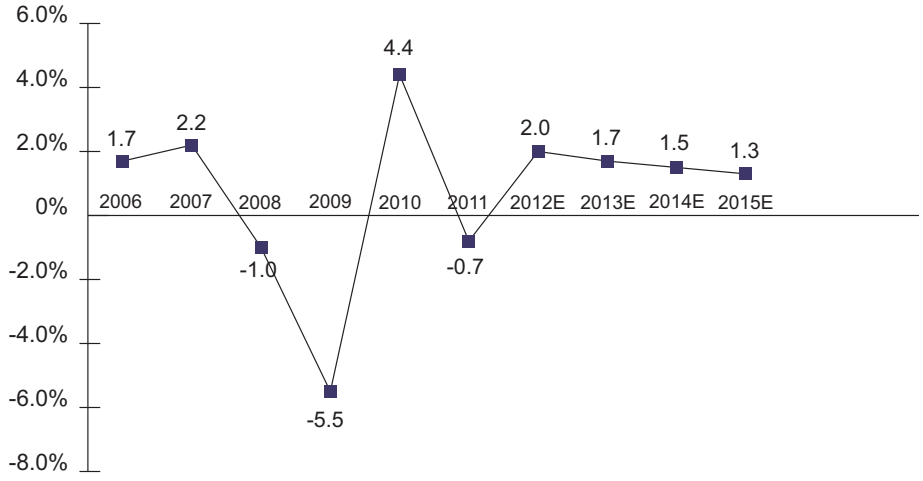
OVERVIEW OF THE JAPANESE ECONOMY

Third largest economy in the world

The Japanese economy is the third largest in the world. Although Japan's real GDP grew at an average rate of approximately 1.8% annually from 2003 to 2007, the global financial crisis and the resulting contraction in domestic demand saw the economy shrink 1.0% in 2008 and 5.5% in 2009. When circumstances improved in 2010, real GDP again grew at approximately 4.4%. However, the Great East Japan Earthquake and resulting tsunami in March 2011 caused Japan's real GDP to contract in 2011, but it is expected to subsequently grow.

The following chart sets out the annual percentage change in Japan's real GDP for the years indicated:

Annual percentage change in Japan's real GDP



Source: International Monetary Fund

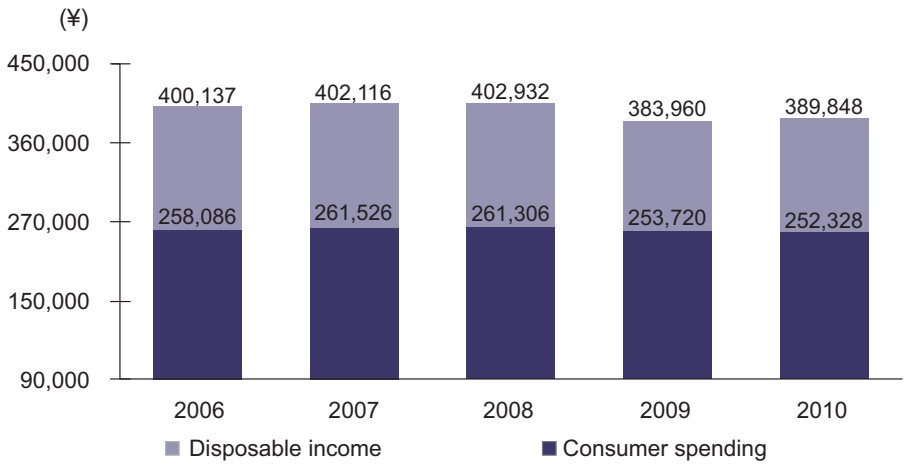
INDUSTRY OVERVIEW

Relatively stable disposable income and consumer spending

Despite slow real GDP growth and the effect of the global financial crisis in 2008, the level of monthly disposable income and consumer spending per household remained relatively stable between 2006 and 2010.

The following chart sets out the monthly disposable income and the consumer spending per household for the years indicated:

Monthly disposable income and consumer spending per household



Source: Japan Statistics Bureau

THE PACHINKO INDUSTRY IN JAPAN

References in this document to pachinko as an industry include both pachinko and pachislot, and to "pachinko halls" indicate halls with pachinko machines, pachislot machines, or both.

History and development of the industry

Pachinko is one of the most popular forms of entertainment. Pachinko machines first appeared in Japan in the 1920s as children's toys, and evolved rapidly into an adult pastime in Nagoya around 1930. Pachinko halls were closed down during World War II, and did not re-emerge in the entertainment industry until the late 1940s. In that era, pachinko machines were mechanical devices with simple designs consisting of bells and flashlights, which remained largely unchanged through the 1970s. It was not until the 1980s that video and sound features were integrated into the design of pachinko machines.

The first slot machine in history was invented in 1899 in the United States. A few decades later, adapted and further developed by game console maker Sega, pachislot machines were introduced in Okinawa, Japan, and were named "Olympia machine" as its debut coincided with the Tokyo Olympics in 1964. While the configuration and method of play remains simple — matching pictures on spinning reels in the playing field by pressing the stop buttons, the machine itself is now controlled by computer chips.

Nowadays, pachinko and pachislot machines are equipped with computer chips, stereo sound systems and advanced liquid crystal display video screens that display enriched content, such as popular animation, drama characters and various celebrities, and enhance the playing experience for the customer.

The playing cost for pachinko and pachislot had been 4-yen and 20-yen per ball or token, respectively, until 1-yen pachinko was introduced in 2006. Low playing cost pachinko reduces the gaming features and enhances the entertainment value of pachinko as it enables a lower participation cost and allows players to play longer for the same playing cost. Low playing cost pachinko were introduced to address the dwindling population of pachinko players.

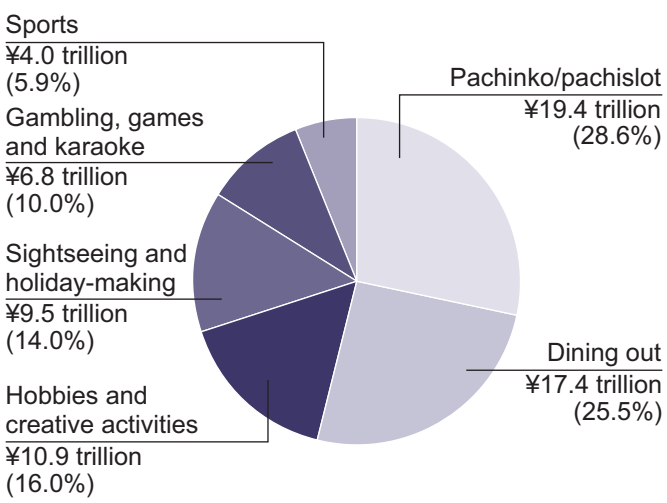
The pachinko industry is under the close supervision of the Japanese government, and rules and regulations have been regularly introduced to control its gaming features. There are strict rules under the Amusement Business Law governing the licencing of pachinko hall operators, payout ratios and technical specifications of machines. For a further description of these laws and regulations, see "Laws and Regulations". In addition, pachinko operators have voluntarily formed self-governing associations to invite comments and feedback from the general public, to support efforts to prevent addiction to gaming, and to generally promote the pachinko industry.

Largest contributor to Japan's entertainment and gaming market

According to the Leisure White Paper 2011 published by Japan Productivity Centre, Japan's entertainment market is estimated to be a ¥67.9 trillion business. The pachinko industry, with gross pay-ins of ¥19.4 trillion, was the largest contributor to Japan's entertainment market, accounting for approximately 28.6% of Japan's entertainment market in 2010.

The following diagram illustrates the entertainment market in Japan in terms of revenue by type of activity in 2010:

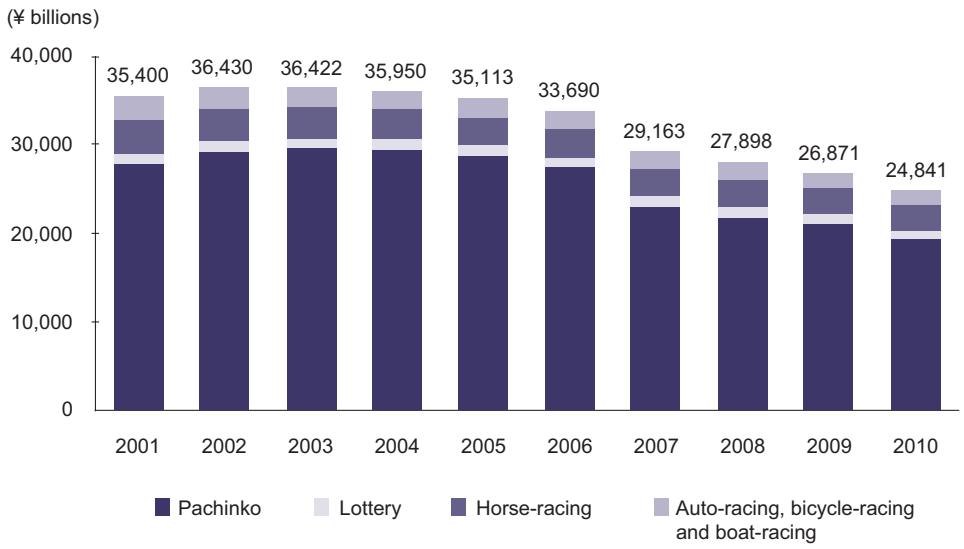
Japan's entertainment market



Source: Leisure White Paper 2011 by the Japan Productivity Centre

In addition, the pachinko industry has dominated the gaming sector in Japan for the past decade. According to EBI, the pachinko industry represented 78.0% of the general gaming market in Japan in 2010. In terms of gross pay-ins, the pachinko industry, with gross pay-ins of ¥19.4 trillion, was the largest. The following diagram illustrates the gaming market in terms of gross pay-ins by activity.

Transition of gaming market scale



Source: Leisure White Papers 2001–2010 by the Japan Productivity Centre

Market trends

According to Yano Research, the pachinko industry peaked in 1995, with total gross pay-ins of ¥30.9 trillion. The pachinko industry experienced a downward trend from 2006 to 2010 with total gross pay-ins declining from ¥27.5 trillion in 2006 to ¥19.4 trillion in 2010. Such drop in gross pay-ins was primarily due to factors such as an increasing proportion of low playing cost pachinko machines in the market, a decreasing number of halls, and a regulation that was adopted in 2004 and phased in by 2007 with the aim of de-emphasising the gambling feature of pachislot games.

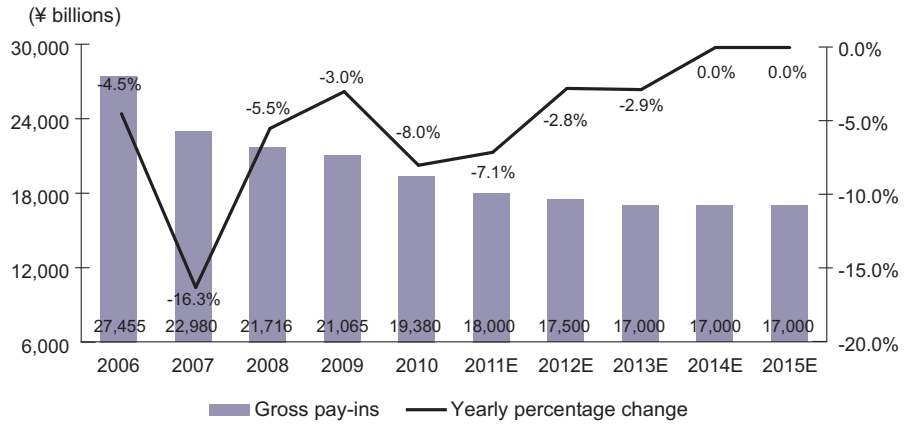
There are various key factors that potentially affect the profitability of a pachinko hall operator, including the scale of operations, mix of machines and G-prize mark-ups. Because of the smaller scale of their operations, small- and medium-sized hall operators, which are unable to leverage economies of scale, have been gradually pushed out of the market and are sometimes acquired by or merged into larger operators. Therefore, according to EBI, the number of halls is expected to shrink. However, we believe that this will result in an increase in gross pay-ins per hall over time.

In addition, low playing cost pachinko and pachislot games are expected to further gain popularity. As a result, the number and proportion of low playing cost machines are projected to rise in the next two years until the supply and demand of both low and high playing cost games have reached an equilibrium. The increasing proportion of low playing cost machines will also lead to the decrease in gross pay-ins in the subsequent two years, according to EBI.

Notwithstanding the above, once an equilibrium is reached and pachinko halls become saturated with low playing cost machines, gross pay-ins are expected to cease falling in 2013 and subsequently stabilize at sustainable levels.

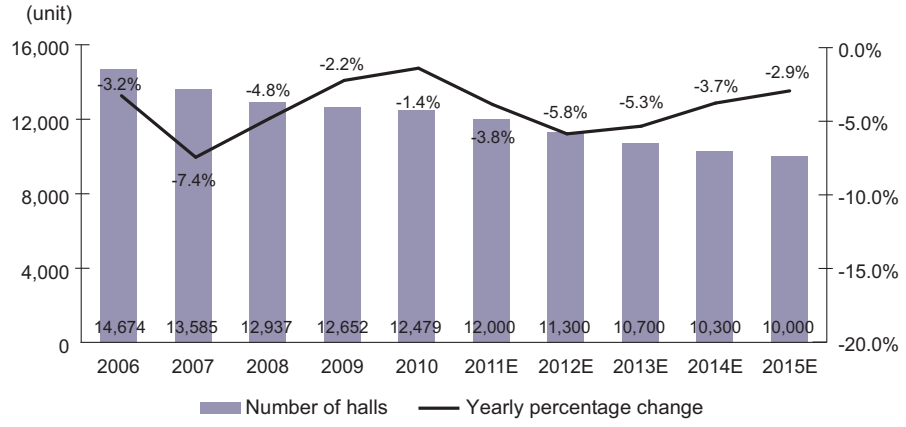
The following two charts set forth the total gross pay-ins of the Japanese pachinko industry, the number of halls and the annual percentage change for the years indicated:

Gross pay-ins of Pachinko halls



Source: Leisure White Paper 2011 by the Japan Productivity Centre and EBI

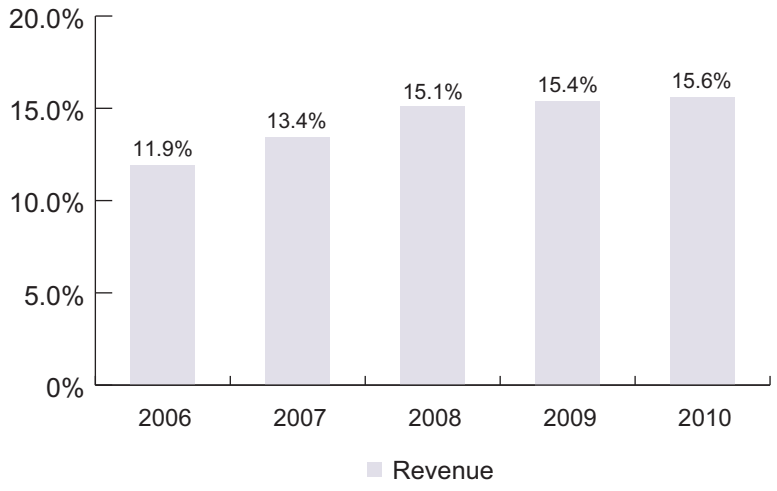
Number of Pachinko halls



Source: National Police Agency and EBI

According to EBI, despite the effect of decreasing gross pay-ins and a decreasing number of halls, the revenue margin per machine increased from 11.9% in 2006 to 15.6% in 2010. According to EBI, hall operators manage payout ratios by, among other things, adjusting the proportion of machines according to playing cost and jackpot probability, which in turn allows them to manage revenue margins. The following diagram sets forth the revenue margin per machine for the years indicated.

Revenue margin per machine



Source: EBI

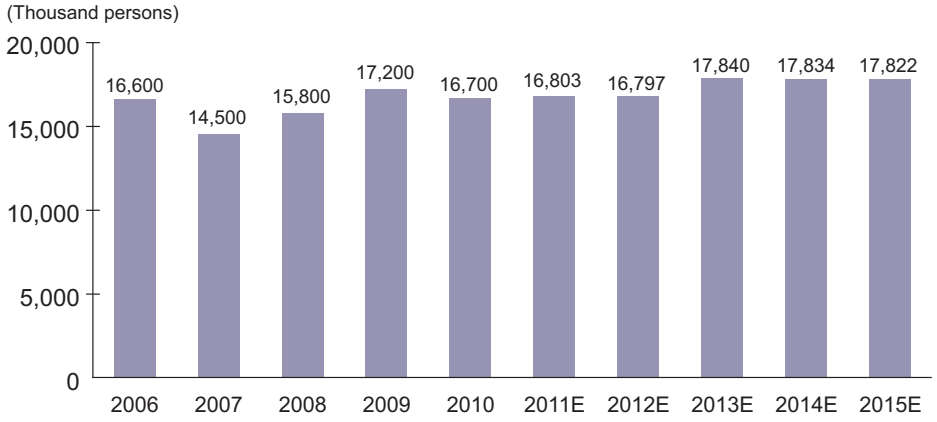
Pachinko players

The population of pachinko players has recovered from its recent decline in 2007, increasing from approximately 14.5 million in 2007 to 16.7 million in 2010. According to Yano Research, the drop in 2007 was primarily due to a regulatory change that was introduced in 2004 and phased in by 2007 with the aim of de-emphasising the gaming features of pachislot games and which resulted in the elimination of a type of pachislot machine with certain gambling features. The pachinko playing population increased afterwards due to the recovering popularity of pachislot and the introduction of low playing cost machines.

According to EBI, the number of pachinko players is expected to remain relatively stable through 2012, and then to increase to approximately 18.0 million in 2015. This projected increase in pachinko players is anticipated to be largely drawn from the base of dormant pachinko players. It is estimated that there are 20.0 million dormant pachinko players who may resume playing under certain circumstances, such as improved personal finances, lower playing costs or higher payout ratios.

The following chart sets forth the number of pachinko players for the years indicated:

Number of Pachinko players



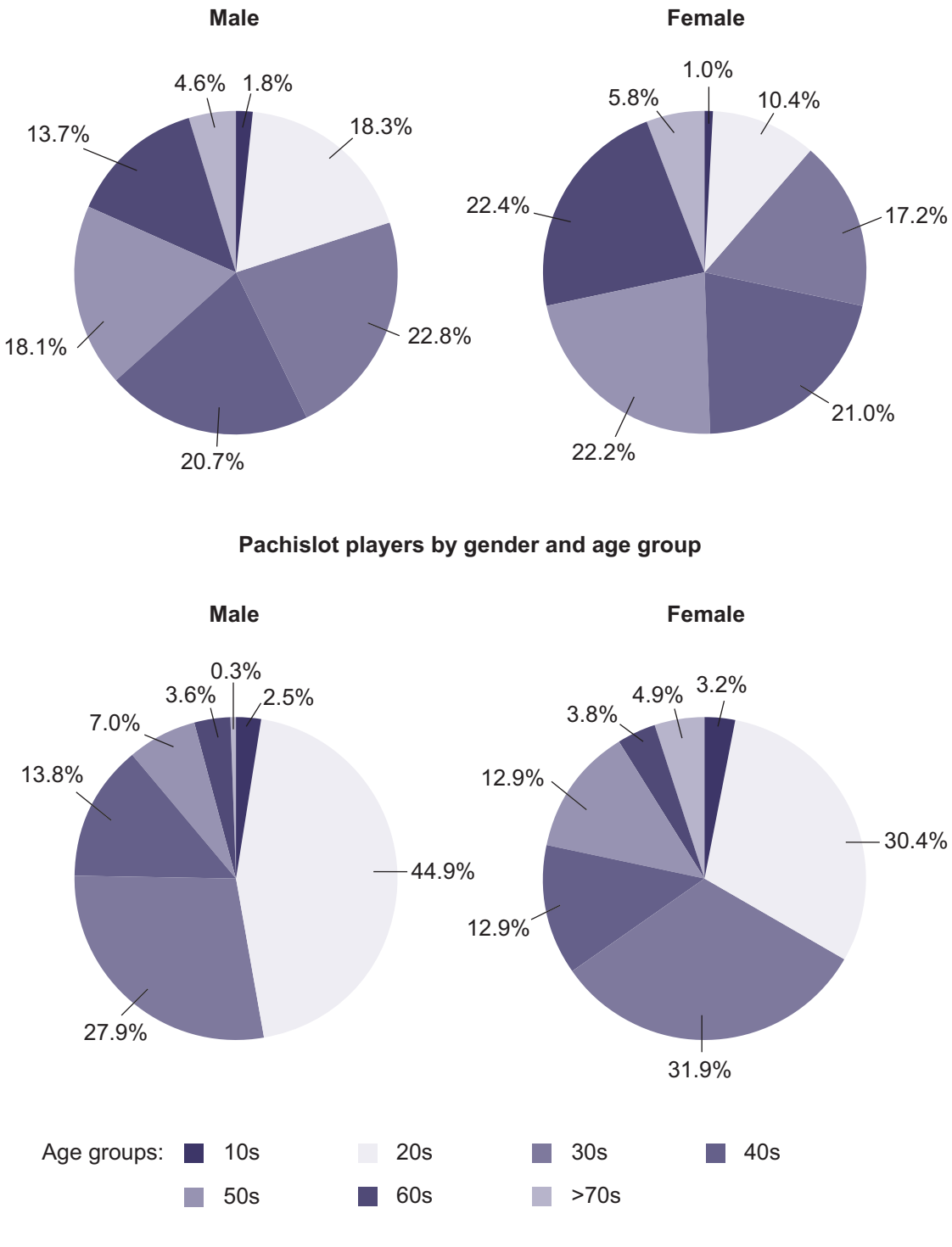
Source: Leisure White Paper 2011 by the Japan Productivity Centre and EBI

According to Yano Research, the average age of pachinko players was 44.4 for males and 49.5 for females, and 33.6 and 38.1 for male and female pachislot players, respectively, in 2010. In addition, the majority of pachinko players were from the age group of 40 to 69, representing 52.5% of the entire male pachinko player population and 65.6% of the entire female pachinko player population, while the majority of pachislot players were from the age group of 20 to 39, representing 72.8% and 62.3% of the entire male and female pachislot player population, respectively.

INDUSTRY OVERVIEW

The following diagrams set out breakdowns of pachinko and pachislot players in 2010 by gender and age group:

Pachinko players by gender and age group



Pachislot players by gender and age group

Source: Yano Research

INDUSTRY OVERVIEW

According to Yano Research, the highest concentration of male pachinko and pachislot players in terms of occupation was full-time employees, while housewives were the most prevalent amongst female players. As for pachinko, pensioners represented about 7% of the relevant players for both male and female, a significant higher figure than that of pachislot. Pachislot was more popular amongst younger players and college students accounted for around 11% of the male player population in 2010.

The diagrams below set forth the distribution of male and female player population in 2010 by occupation for pachinko and pachislot respectively:

Pachinko players by occupation

Pachislot players by occupation

Source: Yano Research

Competitive landscape

The pachinko industry in Japan is fragmented with over 4,000 operators in 2010. According to Yano Research, as at 31 December 2010, the aggregate gross pay-ins recorded in 2010 by the top five and top ten hall operators, accounted for about 20.1% and 25.1% of the entire market, respectively, while the aggregate number of halls operated by these top five and top ten operators merely represented approximately 7.2% and 8.8% of the total 12,479 operating halls, respectively, in 2010.

Summary of the top 10 pachinko operators in 2010

Ranking by total gross pay-ins	Pachinko hall operators	Approximate % of total gross pay-ins	Approximate % of total number of machines	Number of halls	Approximate % of total number of halls
1	A	10.5%	3.7%	269	2.2%
2	Dynam	4.4%	3.3%	341[(1)]	2.7%
3	B	2.0%	0.5%	46	0.4%
4	C	2.0%	2.2%	202	1.6%
5	D	1.2%	0.4%	35	0.3%
6	E	1.1%	0.6%	50	0.4%
7	F	1.1%	0.5%	48	0.4%
8	G	1.0%	0.5%	31	0.3%
9	H	0.9%	0.3%	26	0.2%
10	I	0.9%	0.6%	37	0.3%
Total		25.1%	12.6%	1,085	8.8%

Source: Yano Research

(1) Includes only the halls operated by Dynam Co. Ltd and excludes the halls operated by Cabin Plaza, Daikokuten and Okuwa Japan

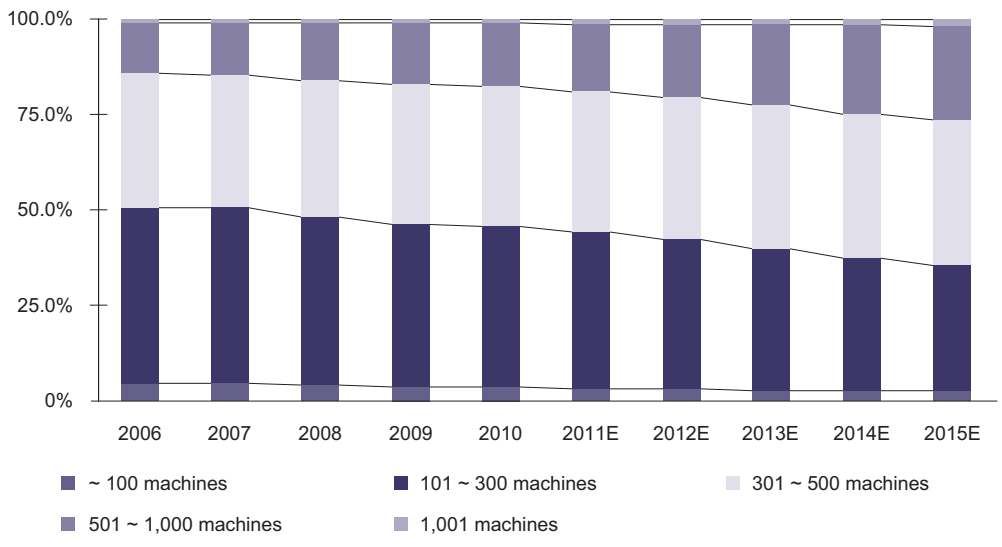
As shown in the above table, there were, including Dynam, only three pachinko hall operators managing more than 100 halls, as at 31 December 2010. These three hall operators are considered to be the nationwide chain operators, where the rest are regional and local hall operators. According to Yano Research, when opening a new pachinko hall, these well-known and highly recognised brand name operators tend to have a more favourable turnout, pulling customers away from regional and local hall operators.

While both the aggregate numbers of machines and hall operators have been decreasing, the average number of machines per hall has been increasing in recent years, from approximately 345 machines per hall in 2005 to approximately 370 in 2010, as indicated by the data from the National Police Agency. This trend is expected to continue in the next few years and the average number of machines per hall in 2015 will be approximately 424, according to EBI. The following table and diagram set forth the number of and the percentage of hall operators by average number of machines per hall for the periods indicated:

Number of halls by the average number of machines per hall

	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Under 100 machines	653	654	538	464	463	400	350	300	250	250
101–300 machines	6,800	6,204	5,664	5,374	5,216	4,850	4,500	4,000	3,600	3,300
301–500 machines	5,153	4,710	4,649	4,627	4,585	4,400	4,250	4,100	3,900	3,850
501–1000 machines	1,955	1,914	1,976	2,069	2,076	2,100	2,200	2,300	2,400	2,500
Over 1001 machines	113	103	110	118	139	145	150	155	160	175
Total	14,674	13,585	12,937	12,652	12,479	11,895	11,450	10,855	10,310	10,075
Average	345	348	359	367	370	377	387	401	414	424

Transition in the number of halls per size



Source: National Police Agency and EBI

According to Yano Research, the number of pachinko halls in Japan decreased from 14,674 in 2006 to 12,479 in 2010. Over 80% of hall operators manage three halls or less and only 3.7% of hall operators manage ten halls or more. The average number of halls operated per hall operator remained at approximately three during this period.

INDUSTRY OVERVIEW

The fragmented pachinko industry continues to experience a trend where smaller operators being put out of business by large competitors with greater financial, staff and other necessary resources and operational experience. The following table sets forth the number of hall operators by number of halls operated for the years indicated:

Number of hall operators by the number of halls operated

	2006		2007		2008		2009		2010	
		%		%		%		%		%
One hall	2,654	53.6%	2,412	53.9%	2,419	55.2%	2,365	55.0%	2,235	54.4%
Two halls	984	19.9%	889	19.9%	840	19.2%	839	19.5%	796	19.4%
Three halls	493	10.0%	416	9.3%	402	9.2%	388	9.0%	388	9.4%
Four halls	247	5.0%	221	4.9%	204	4.6%	191	4.4%	188	4.6%
5–9 halls	411	8.3%	376	8.4%	355	8.1%	363	8.4%	350	8.5%
10–14 halls	79	1.6%	81	1.8%	83	1.9%	74	1.7%	69	1.7%
15–19 halls	35	0.7%	41	0.9%	39	0.9%	41	1.0%	37	0.9%
Over 20 halls	47	0.9%	40	0.9%	38	0.9%	42	1.0%	46	1.1%
Total	4,950	100.0%	4,476	100.0%	4,380	100.0%	4,303	100.0%	4,109	100.0%

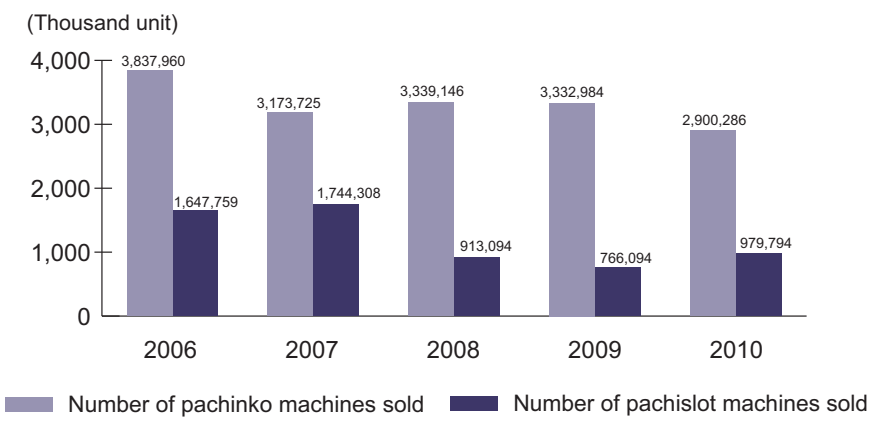
Source: Yano Research

Pachinko and pachislot machine manufacturing

Both the pachinko and pachislot machine manufacturing markets in Japan are well-developed. According to Yano Research, the numbers of pachinko and pachislot machines sold in 2010 were approximately 2.9 million and 0.9 million units, respectively, resulting in revenues of approximately ¥886.9 billion and ¥286.7 billion, respectively. According to Yano Research, the top five manufacturers accounted for over 70.0% of the entire market, in terms of the number of machines sold and revenue generated from those sales in 2010.

The following diagram shows the number of pachinko and pachislot machines sold for the years indicated:

Number of pachinko and pachislot machines sold



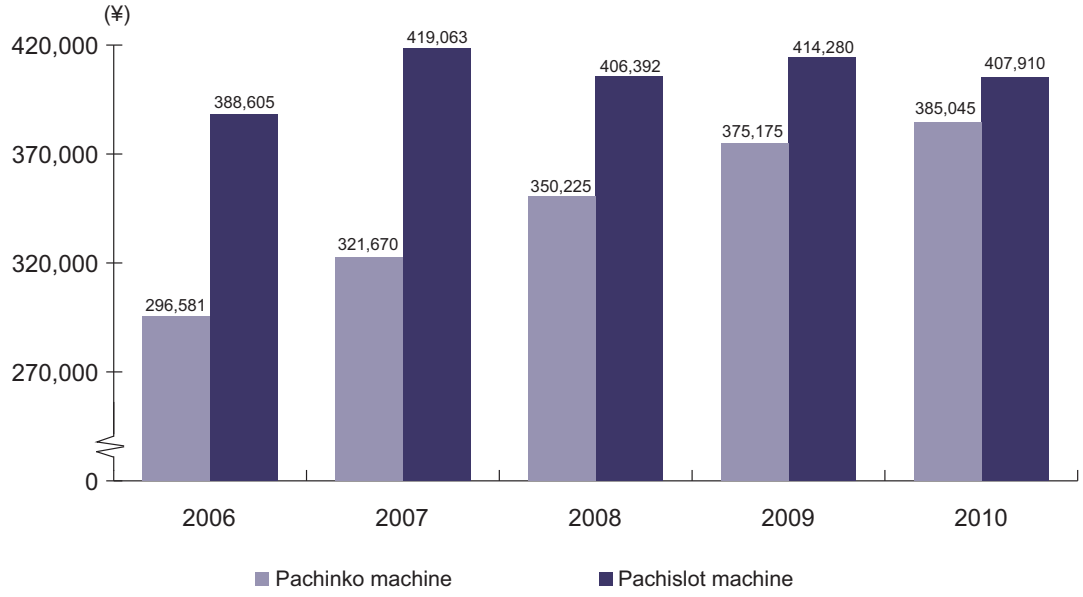
Source: Yano Research

As shown in the above diagram, sales of pachinko machines have been relatively stable as hall operators believe that frequent change of new machines is one of the key factors in retaining and attracting pachinko players. However, because of an over-supply of machines and rising machine costs, pachinko operators have refrained from buying new machines too frequently, resulting in a drop in the sales of pachinko machines in 2010, according to Yano Research.

Sales of pachislot machines, however, have fluctuated over the years. The acute drop in sales in 2008 was attributable to a regulation implemented in 2007 which de-emphasised the gambling features of pachislot games which led to reduced popularity of pachislot games and thus less demand for pachislot machines. Since then, sales of pachislot machines have begun to recover in 2010 as pachislot has been again gaining popularity amongst the young generation of pachislot players.

The following diagram sets forth the average unit price of pachinko machine and pachislot machine for the years indicated:

Average unit price[(1)] of pachinko pachislot machines



Source: Yano Research

(1) The average unit price was calculated based on the amount of sales divided by the number of the top selling machines sold for the year indicated.

The average unit price of pachinko machines has increased from approximately ¥296,581 in 2006 to ¥385,045 in 2010. The unit price of pachislot machines has been relatively stable.

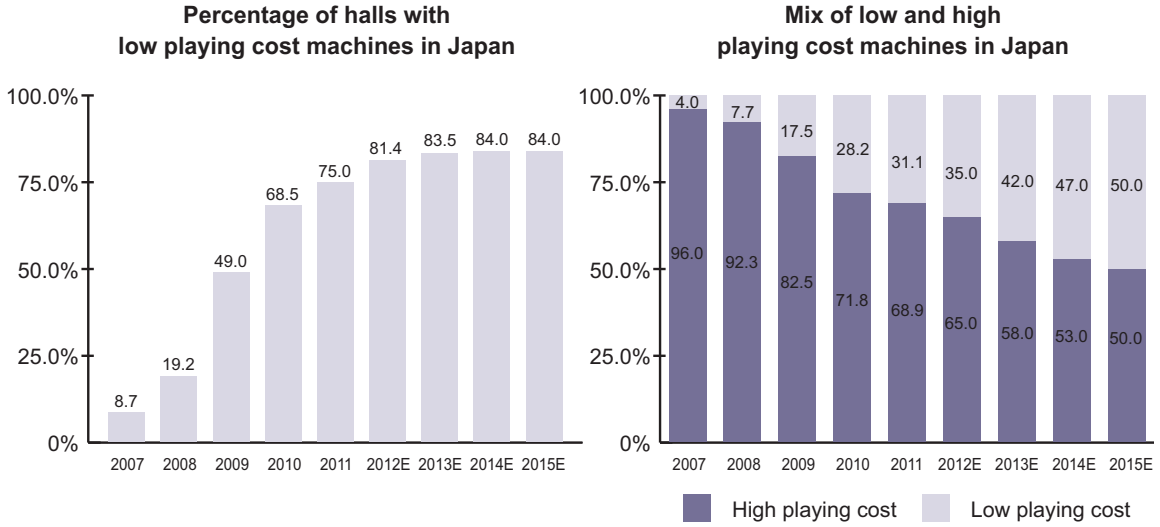
FUTURE TRENDS IN THE PACHINKO INDUSTRY

Lower playing cost pachinko and pachislot games

Since the introduction of low playing cost pachinko machines in 2007, the number of pachinko halls equipped with these low playing cost machines has increased steadily. According to Yano Research, the number of pachinko halls with low playing cost machines increased from 1,049 in 2007 to 7,935 in 2010, representing a CAGR of approximately 96.3%. In addition,

approximately 71.3% of the new halls opened in 2010 were equipped with low playing cost machines, with approximately 14.5% of these new halls specialising solely in low playing cost machines. It is expected that the number of halls equipped with low playing cost machines will increase till 2013 and subsequently stabilize, and that the proportion of low playing cost machines will also increase until the market has become saturated, according to EBI.

The following two diagrams set out the percentage of pachinko halls with low playing cost machines and the percentage of low playing machines in the market for the years indicated.



Source: EBI

The low playing cost pachinko machines are considered to be more entertainment-oriented, while the traditional high playing cost 4-yen machines are aimed at players who are playing to win. Low playing cost machines allow pachinko players to enjoy the gaming experience for the same amount of time while spending significantly less compared to that of the high playing cost games. We believe that the broader customer base that the low playing cost machines attract, such as players of the retirement age group and players new to pachinko, will offset the lower revenues generated by these low playing cost pachinko and pachislot games. Furthermore, as players of the low playing cost games play for entertainment value instead of for winnings, the pachinko operator can generally offer a slightly lower payout ratio on the low playing cost machines than for the traditional high playing cost machines.

Well-recognised corporate franchise and effective internal controls

Not only is a well-recognised corporate franchise important to the hall operator, but it is also a major factor the player considers when choosing which hall to visit. We believe pachinko players tend to have more confidence in pachinko halls managed by a well-recognised corporate organisation. To establish a well-recognised corporate franchise, a pachinko operator must not only invest in advertising and marketing, but also maintain an effective internal control system over its operation. This development will no doubt favour sizable nationwide operators, as they would have the financial resources and manpower to handle such tasks.

Non-smoking halls with lower noise levels

In recent years, the Japanese government has implemented measures to heighten awareness of the health risks associated with smoking, including prohibiting smoking in public other than in designated areas. The country's first anti-smoking ordinance was implemented in April 2010 in Kanagawa Prefecture, prohibiting smoking in public facilities and requiring large restaurants and hotels to either prohibit smoking or create separate smoking areas. There is also a growing awareness of second-hand smoke as several cities and prefectures throughout Japan have also proposed and enacted regulations against "passive exposure" to cigarette smoke. We believe that the industry will develop such that non-smoking halls will gain popularity gradually, leading to an increasing percentage of non-smoking pachinko halls in Japan. Also, by introducing non-smoking halls with lower noise levels, pachinko hall operators hope to draw in new players who have not previously visited pachinko halls because of the smoking and noise levels.

SOURCES OF INFORMATION

Yano Research

We commissioned Yano Research, an Independent Third Party, to prepare a report on Japan's pachinko market in December 2011, which is cited in this document. The total fee we paid for the report prepared by Yano Research was ¥1.08 million. Yano Research is a private marketing research company in Japan founded in 1958 that provides marketing intelligence and consulting services. Yano Research regularly publishes industry reports on the pachinko industry. In preparing these reports, including this commissioned report, Yano Research collects and reviews publicly available data such as government-derived information, annual reports and industry association statistics. Yano Research has advised us that it has exercised due care in collecting and reviewing the information collected and believes that the basic assumptions contained therein are factual and correct, and that the interpretations are reasonable. Yano Research has advised us that it has independently analysed the information collected, but that the accuracy of the conclusions of its review largely depends upon the accuracy of the information collected.

EBI (ENTERTAINMENT BUSINESS INSTITUTE)

To further understand the Japanese pachinko market, in addition to Yano Research, we commissioned EBI, an Independent Third Party, to prepare a report in January 2012, which is cited in this document. The total fee we paid for the report prepared by EBI was ¥1 million. EBI is a private market research company in Japan founded in 1992 that provides market intelligence and consulting services specialising in the gaming industry. EBI performs research and publishes annual reports as well as other learning materials on the pachinko industry. In preparing these reports, including this commissioned report, EBI collects and reviews publicly available data such as government-derived information, annual reports and industry association statistics. EBI has advised us that it has exercised due care in collecting and reviewing the information collected and believes that the basic assumptions contained therein are factual and correct, and that the interpretations are reasonable. EBI has advised us that it has independently analysed the information collected, but that the accuracy of the conclusions of its review largely depends upon the accuracy of the information collected.

Non-commissioned sources

We have also cited the following non-commissioned, Independent Third Party sources in this document:

- the International Monetary Fund (IMF), an organization of 187 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world;

- the Japan Statistics Bureau, which plays a central role in the official statistical system in producing and disseminating basic official statistics, and coordinating statistical work under the Statistics Act and other legislation;

- the Japan Productivity Centre, a non-profit organization and non-governmental organization established in 1955 to promote the Productivity Movement in Japan under its Three Guiding Principles; and

- the National Police Agency, an agency administered by the National Public Safety Commission of the Cabinet Office in the cabinet of Japan which is also the central coordinating agency of the Japanese police system.

LAWS AND REGULATIONS

This section sets forth a summary of the most significant aspects of Japanese laws and regulations relating to our business in Japan.

GENERAL OVERVIEW OF THE JAPANESE LEGAL SYSTEM

Primary Features

The Japanese legal system has the following significant features:

- The Japanese legal system is a hybrid civil law system with characteristics of both civil law systems, such as the French and German civil legal systems, as well as common law systems, such as the United States legal system.

- Under Japanese law, any act, including our operations under the Three Party System, shall not be subject to criminal prosecution unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the applicable statutory provisions.

- Court rulings, although they have a *de facto* binding effect on inferior courts, do not modify existing law or create new law. Laws can only be adopted or modified through the legislative process.

- Court rulings, similar to court rulings in other civil and common law systems elsewhere, may be overturned by laws and regulations and/or amendments to existing laws and regulations enacted or adopted by legislative or executive authorities.

- The highest court in Japan is the Supreme Court.

Historical Background

The early modernisation of the Japanese legal system in the mid-19th century to early-20th century was primarily influenced by the German and French codes, which are civil law codes which served as models for the major Japanese codes such as the Civil Code.

After the Second World War, some laws in Japan such as the Constitution of Japan (the "Constitution"), criminal procedure laws, and labour laws were amended or replaced using principles from United States law, which is based on the common law. Therefore, the Japanese legal system is a hybrid of the civil law system and the common law system, and has evolved substantially independently in accordance with the Japanese legal culture.

The distinction between common law and civil law mainly lies in the precedential value of case law. In a common law legal system, judicial decisions of superior courts have precedential value in later court decisions and form part of the common law, along with laws and regulations enacted or adopted by the legislative and executive branches of government. As a result, judges in a common law system have a substantial role in shaping the law.

In contrast, a civil law system tends to be a codified body of broad and general principles. The judge's role is to establish the facts of the case and to apply the provisions of the applicable code. Judicial decisions are consequently less crucial in the development of the law.

Generally, the Japanese legal system operates to proscribe unacceptable conduct, rather than prescribe particular types of permissible conduct. In other words, under Japanese law, conduct is generally allowed unless it is stated as prohibited under the law.

LAWS AND REGULATIONS

Constitution

Japan's current legal system was established by the Constitution, promulgated on 3 November 1946 after the Second World War. The Constitution provides for the separation of the legislative, judicial and executive powers.

The Constitution establishes a parliamentary system of government, where the legislative authority is vested in a bicameral National Diet (the "Diet"); the executive authority is exercised by the Prime Minister and the cabinet who are answerable to the legislature; and the judiciary is headed by the Supreme Court of Japan.

Source of Law and Legislative Process

The sources of Japanese law include the Constitution, Treaties and International Agreements, Acts, Cabinet Orders, Ministry Ordinances and Ministry Notifications.

Under Article 98 of the Constitution, the Constitution is the supreme law of the nation and no law, ordinance, imperial rescript or other act of government, or part thereof, contrary to the provisions hereof, shall have legal force or validity.

Under Article 41 of the Constitution, the Diet is the highest organ of state power and the sole law-making body. The Diet is made up of two houses, the House of Representatives (*Shugi-in*) and the House of Councillors (*Sangi-in*). Under the Japanese legislative process, most draft bills come from the executive and are then submitted to the Diet through the Cabinet. To become law, a bill must pass both houses of the Diet. Japanese law comprises written laws that fit into a certain hierarchy, headed by the Constitution. Statutes are often sorted, by subject matter, into substantive and procedural laws. The Cabinet and each Ministry may make subordinate regulations such as Cabinet Orders, Ministry Ordinances and Ministry Notifications based upon delegation from the Diet.

Judiciary

Under the Constitution, the Supreme Court is the highest court in the nation exercising appellate jurisdiction. The high courts are appellate courts primarily hearing appeals from district courts or family courts. The district courts are primarily courts of general and first-instance jurisdiction handling all cases. The summary courts have original jurisdiction over civil cases involving claims not exceeding ¥900,000 and minor criminal offences.

The Supreme Court is only able to overturn its own interpretation of a law through the full Supreme Court. If a lower court's judgment does not follow the judgment rendered by the Supreme Court, the decision may be appealed. Therefore, although Japan does not, strictly speaking, adopt the common law system, as is the case in Hong Kong, the Supreme Court's judgments have a de facto binding effect on any court in subsequent cases.

Choice of Law (Act on General Rules for Application of Law)

The rules for choice of law, which will be taken by Japanese courts as international private law, is mainly governed by the Act on General Rules for Application of Laws.

The formation and effect of a juridical act, including without limitation contracts, shall be governed by the law of the place chosen by the parties. In the absence of such choice, the formation and effect of a juridical act shall be governed by the law of the place with which the act is most closely connected at the time of the act. In such case, if only one of the parties to a contract is to provide performance involved in a juridical act, the law of the habitual residence of

the party providing such performance shall be presumed to be the law of the place with which the act is most closely connected. In cases where the party has a place of business connected with the juridical act, this will be the law of the place of business. In cases where the party has two or more such places of business which are connected with the juridical act and which are governed by different laws, this will be the law of the principal place of business. The parties may change the governing law otherwise applicable to the formation and effect of a juridical act; provided, however, that if such change prejudices the rights of a third party, it may not be asserted against the third party.

Penal Code and the Code of Criminal Procedures

Crimes in Japan are mainly enumerated in the Penal Code, which provides the elements of different types of crimes and the penalties for different types of crimes. The Penal Code sets out minimum and maximum sentences for offences. Penalties range from fines and short-term incarceration to compulsory labour and the death penalty.

Under Article 31 of the Constitution, the requirements for constituting a crime under the Penal Code and any other criminal laws shall be construed strictly in accordance with the specific provisions contained in these laws. Any interpretations that rely upon analogy to other laws, or that look to similar treatment for actions under other laws, are prohibited. Therefore, under Japanese law, an act shall not be punishable unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the corresponding provisions.

A person shall not be subject to any criminal liability without procedural due process being observed under the Code of Criminal Procedures. Police have to secure warrants to search for or seize evidence. A warrant is also necessary for an arrest, although if the crime is very serious or if the perpetrator is likely to flee, it can be obtained immediately after arrest. Within forty-eight hours after placing a suspect under detention, the police have to present their case before a prosecutor, who is then required to apprise the accused of the charges and of the right to counsel. Prosecution will be denied if there is insufficient evidence or on the prosecutor's judgment. Most offences are tried first in district courts before one or three judges, depending on the severity of the case. Defendants are protected from self-incrimination, forced confession, and unrestricted admission of hearsay evidence. In addition, defendants have the right to counsel, public trial, and cross-examination.

Civil Code

(a) Structure of Civil Code

The Civil Code of Japan (民法 Minpo) was enacted in 1896. It was heavily influenced by the German Civil Code and the French Civil Code. The code is divided into five parts, the General Provisions, Property, Claims, the Family and Inheritance. The parts related to family and succession retain certain vestiges of the old patriarchal family system that was part of Japanese tradition. The Civil Code has remained substantially unchanged even after the American occupation in 1945, except for the fourth and fifth parts.

(b) Contract Law

As is the case for many countries, contracts under Japanese law are formed by the manifestation of intention by way of offer and acceptance. The parties may generally enjoy freedom to agree on the terms and conditions of any contract which will supersede most provisions of the Civil Code; however, some contracts may be subject to the mandatory requirements under the Consumer Contract Act and other applicable laws and regulations. The formation of contracts does not require documentation unless otherwise required under special

laws and regulations. Contrary to common law jurisdictions, consideration is not necessary for a contract to be enforceable. Also, there are no rules directly equivalent to the parol evidence rule in interpreting the terms and conditions of the contract.

(c) Torts

Under the Civil Code, a person who has intentionally or negligently infringed any right of another, or a legally protected interest of another, shall be liable to compensate the other party for consequential damages. An employer is liable for damages inflicted on a third party by the actions of his/her employees in the execution of the employer's business; provided, however, that this shall not apply if the employer exercised reasonable care in appointing the employee or in supervising the employee's activities, or if the damages could not have been avoided even if he/she had exercised reasonable care. If more than one person has inflicted damages on another party or parties by their joint tortious acts, each of them shall be jointly and severally liable to compensate the other party or parties for those damages. The same shall apply if it cannot be ascertained which of the joint tortfeasors inflicted the damages.

(d) Property

Property rights are based upon the concept of ownership (title) under Japanese law. The owner of the property generally enjoys an absolute right to possess, utilize and dispose of the property, unless otherwise restricted under the mandatorily applicable laws or specifically agreed through a contract. Therefore, there is no concept of negative or affirmative covenants under Japanese law and the same purpose is achieved by mandatory laws in Japan (such as zoning or building or environmental laws and regulations) or by specific contractual arrangements.

Under the Civil Code, no type of property can be established other than those prescribed by laws including the Civil Code. The creation and transfer of property rights shall take effect solely by the manifestations of intention of the relevant parties. Any deed or written agreement is generally not required for the transfer of property (including land ownership) to be valid and enforceable under Japanese law and oral agreement is generally sufficient. However, the acquisition or loss of or any change in property rights concerning immovable property may not be asserted against a third party unless the same are registered pursuant to the applicable provisions of the Real Estate Registration Act (Act No. 123 of 2004) and other applicable laws and regulations regarding land registration.

REGULATORY FRAMEWORK

Our pachinko operations are subject to various requirements and restrictions under Japanese law and oversight by Japanese regulatory authorities. Generally, pachinko regulations fall under the Amusement Business Law and the cabinet and ministerial ordinances and regulations thereunder. In particular, the Amusement Business Law prohibits pachinko hall operators from being involved in the exchange of prizes for cash or securities by either providing cash or securities as prizes or repurchasing from customers the prizes provided to them. In order to ensure independence among pachinko hall operators, prize buyers and G-prize wholesalers, the pachinko industry operates under the "Three Party System" as described in greater detail below and in "Business — Pachinko Operations — Three Party System".

We are also subject to Japanese laws and regulations that require pachinko operators to obtain operating licenses and impose various operating requirements on pachinko halls and pachinko and pachislot machines, as well as other Japanese law and regulations applicable to Japanese companies generally, such as those relating to corporate governance, taxation and labour.

LAWS AND REGULATIONS

Pachinko is an established business and has been in place in Japan for more than five decades. The history of the pachinko industry has been characterized by government efforts to reform the industry to curb speculative excesses and perceived social problems relating to the industry. Prior to the later part of the period from 1995 to 1999, questionable business practices and crime and other anti-social forces gave the pachinko industry a negative public image. However, over the last two decades, the growing magnitude and importance of pachinko to the Japanese economy spurred the Japanese government and industry associations to step in to establish strict regulations, remove criminal and anti-social elements and improve the public image of the pachinko industry. The regulation effort has been highly successful. Due to the success of these reform efforts, the pachinko industry has evolved to become an integral part of the entertainment industry in Japan and an important component of the Japanese economy.

The following table sets forth the major regulatory developments that have affected the Three Party System over time.

Date	Events
17 July 1880 . .	The predecessor to the current Penal Code is first enacted, including provisions equivalent to the present provisions related to "Gambling" and "Running a Gambling Place for the Purpose of Gain" (Articles 260 and 261).
1904	The "Rule Regulating Gaming Places" is enacted.
24 April 1907 . .	The predecessor to the current Penal Code is amended, including provisions equivalent to the present provisions related to "Gambling", "Habitual Gambling" and "Running a Gambling Place for the Purpose of Gain" (Articles 185 and 186).
1930	The first pachinko hall is opened in Nagoya.
1942 to 1945 . .	The pachinko hall business is banned during World War II as an unnecessary business in times of emergency.
10 July 1948 . .	The "Act Regulating Amusement Business" is enacted, under which pachinko hall operations became subject to licensing by the Public Safety Commission. Under this Act, each prefecture may set restrictions on amusement business operators, necessary to prevent harm to good morals (Article 3). Pursuant to this Article 3, prefectures begin promulgating local regulations prohibiting pachinko halls from: (i) providing cash as prizes; (ii) repurchasing from customers the prizes provided to them by those pachinko halls (the "Direct Repurchase Regulation"); and (iii) causing a third party to repurchase the prizes (the "Indirect Repurchase Regulation").
10 November 1953	The Supreme Court holds that, if an operator of a gaming place, with a valid license from the Public Safety Commission under the "Act Regulating Amusement Business", offers prizes within the scope of the license, it is an "activity involving betting for a thing that is provided for temporary amusement" under Article 185 of the Penal Code and thus is not gambling under the Penal Code.
1961	An early form of the Three Party System is adopted in Osaka.

LAWS AND REGULATIONS

Date	Events
17 June 1968. .	The Fukuoka High Court holds that there is no violation of the Direct Repurchase Regulation or Indirect Repurchase Regulation in local regulations, where prizes are commingled with prizes from other sources, because it is impossible to identify which of the prizes being purchased by the pachinko hall were originally from that same pachinko hall.
14 August 1984	The "Act Regulating Amusement Business" is renamed the "Act on Control and Improvement of Amusement Business, Etc." (the "Amusement Business Law"), introducing the Direct Repurchase Regulation into the national legislation, and is substantially amended to prohibit, among others: (i) providing customers with cash or securities as prizes; and (ii) repurchasing from customers the prizes provided to them (Article 23).
August 1984 . .	Each prefectural government has in place local regulations ancillary to the Amusement Business Law as well as the Indirect Repurchase Regulation and Direct Repurchase Regulation.
11 January 1985	The "Ordinance for Enforcement of the Amusement Business Law" (the "Enforcement Ordinance") is enacted, limiting the value of a prize offered by an amusement business to no more than ¥3,000.
25 September 1990	The Enforcement Ordinance is amended, raising the maximum limit on the value of a prize offered to ¥10,000 (Article 35, Paragraph 3).
17 April 1991 . .	The Penal Code is amended to raise the maximum amount of fine for a Crime of Gambling to ¥500,000 (Article 185).
25 June 2003. .	The National Police Agency answers questions raised by the "Group of Diet Members Considering Casino as an International Tourism Industry" and comments in support of the Three Party System in terms of both the Penal Code and the Amusement Business Law. The comments not only state that pachinko halls which operate their business within the scope of the Amusement Business Law are not engaging in "gambling" under the Penal Code, but also that third parties are not prohibited from purchasing prizes from pachinko hall customers.

Principal Administrative Authorities

The following are the principal administrative and regulatory authorities that oversee pachinko operations in Japan:

- the National Public Safety Commission;
- the Prefectural Public Safety Commission in the prefecture in which the relevant hall is located;
- police personnel;
- prefectural governments;
- the Security Communications Association;
- the Prefectural Entertainment Environment Cleanup Association; and
- the Minors Orientation Committee.

National Public Safety Commission

The National Public Safety Commission, an administrative commission belonging to the Japanese cabinet which oversees national security in Japan and implements regulations relating to the technical specifications of pachinko and pachislot machines as well as the operations of pachinko halls. For example, National Public Safety Commission regulations govern the playing costs of pachinko games, machine designs, maximum payout ratios and balls and pachislot tokens put into play and released, method of providing prizes, maximum value of prizes offered and the minimum age for playing pachinko.

The National Public Safety Commission also oversees the National Police Agency, which leads the prefectural police in their implementation of National Public Safety Commission regulations and policies.

Prefectural Public Safety Commission

The Prefectural Public Safety Commission in each prefecture is an administrative commission that supervises prefectural police agencies in their implementation of National Public Safety Commission policies and regulations. Each Prefectural Public Safety Commission grants pachinko hall licences, has the power to cancel pachinko hall licences, grants permission for changes in the structure of pachinko halls, certifies and approves pachinko and pachislot machines, approves the technical standards for pachinko and pachislot machines and monitors violations of laws and regulations by pachinko hall operators. It has authority, to the extent necessary for enforcement of the Amusement Business Law, to require holders of a pachinko hall licence to submit documentation concerning business matters. It also conducts hearings related to revocation, suspension or cancellation of pachinko hall licences or pachinko hall operations, and other related disciplinary actions against pachinko hall operators and pachinko hall managers.

Police personnel

Police personnel are permitted to enter pachinko halls to the extent necessary for enforcing the Amusement Business Law.

Prefectural governments

Prefectural governments set the standards for the hours of operation of pachinko halls, the level of noise and vibration around pachinko halls and collect fees which are necessary for certification, approval and examination of pachinko halls and pachinko and pachislot machines.

Security Communications Association

The Security Communications Association is responsible for examining machines to ensure that they comply with Amusement Business Law standards in their technical specifications and also to ensure that they do not promote a "passion for gambling".

Prefectural Entertainment Environment Cleanup Association

The Prefectural Entertainment Environment Cleanup Association works under the Prefectural Public Safety Commission to organise personnel training and promote compliance with the Amusement Business Law.

Minors Orientation Committee

The Minors Orientation Committee works under the Prefectural Public Safety Commission to prevent minors from being involved in any "amusement business".

Penal Code of Japan

Gambling is a criminal offence under the Penal Code of Japan (Act No. 45 of 1907, as amended). Article 185 prohibits "simple criminal gambling", and violation is generally punishable by a maximum fine of ¥500,000. If the gambling is a repeated vice, it is considered "habitual criminal gambling", which is prohibited by Article 186 and is punishable by up to three years' imprisonment. Both types of gambling can be applied to a person engaged in the act considered to be gambling as well as to a person or entity who runs or organises a place for gambling. The Penal Code exempts activities that are expressly provided for in the laws and regulations of Japan, such as small-scale lotteries and public horse racing. Article 185 also exempts activities involving "betting for a thing that is provided for temporary amusement". As a pachinko hall operator, the Company must therefore conduct its operations such that it only offers prizes that fall within the scope of "a thing that is provided for temporary amusement".

The Supreme Court, the highest court in Japan, has upheld a lower court judgment holding that if a duly licenced operator of a gaming place offers prizes within the scope of its operating license granted by the Public Safety Commission under the Amusement Business Law, such act of offering such prizes is "an activity involving betting for a thing which is provided for temporary amusement" under Article 185 of the Penal Code and thus would not be deemed gambling under the Penal Code. In addition, the National Police Agency has stated that pachinko operators who are operating their businesses within the scope of the Amusement Business Law shall not be judged to have committed any act that constitutes the crime of gambling. As a result, the operations of pachinko operators who hold a valid operating license under the Amusement Business Law and offer prizes within the scope of their operating license are deemed to fall within the exemption to the prohibition on gambling under the Penal Code. Our Japan Legal Adviser, after conducting the due diligence searches described under " — The Three Party System" below, have confirmed that we hold a valid operating license under the Amusement Business Law and our prizes are offered within the scope of our operating license, and our pachinko operations thus do not violate the Penal Code.

LAWS AND REGULATIONS

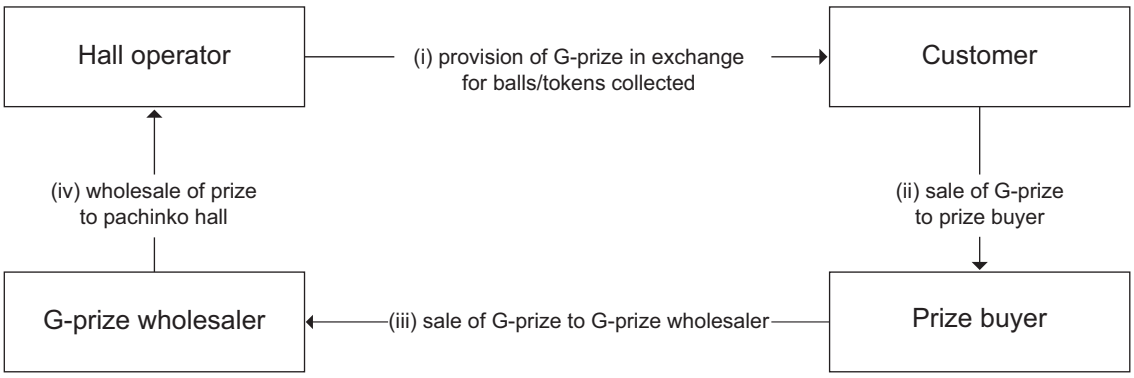
Amusement Business Law

The Amusement Business Law sets regulations for "amusement businesses" such as pachinko. It sets out requirements and regulations that pachinko hall operators must comply with in order to operate their halls. Article 23 of the Amusement Business Law prohibits pachinko hall operators from being involved in the exchange of prizes for cash or securities by either providing cash or securities as prizes or repurchasing from customers the prizes provided to them for cash or securities. It does not prohibit a customer from selling a G-prize redeemed in a pachinko hall to a third party who is not the pachinko hall operator. Nor does it prohibit the pachinko hall from purchasing a G-prize from a third party. However, there are local regulations established by prefectural governments which prohibit pachinko hall operators from causing third parties to repurchase G-prizes from customers (the "Third Party Regulations"). The application of the Amusement Business Law to the Three Party System is described further in the section below.

The Three Party System

Under the "Three Party System", a pachinko hall operator, a prize buyer and a prize wholesaler participate in the sale and purchase of G-prizes obtained by a customer of the pachinko hall operator by playing pachinko and pachislot games. G-prizes are supplied to pachinko operators by wholesalers. Wholesalers may serve various pachinko operators with the same type (in design and appearance), of G-prizes. As a result, G-prizes may not be distinguished by the pachinko operator.

The Three Party System can be illustrated as follows:



As illustrated above, a customer, who has changed cash into pachinko balls or pachislot tokens and then plays pachinko or pachislot games, may exchange the balls or tokens at the hall for a G-prize. These pachinko balls or pachislot tokens are exchanged for G-prizes at a mark-up, set by the pachinko hall, over the purchase price of the G-prize paid by the hall operator to the G-prize wholesaler. A customer may, but is not obliged to, present such G-prizes to a prize buyer, who will purchase the G-prize from the customer for a cash amount equal to the amount at which the wholesalers will purchase such G-prize from the prize buyer, which in turn is equal to the purchase price paid by the hall operator to the G-prize wholesaler for such G-prize. See "Business — Three Party System — Agreements with G-prize wholesalers". Wholesalers purchase G-prizes from various prize buyers and sells the G-prizes to various pachinko halls. Because all the G-prizes purchased by the wholesaler from multiple prize buyers are commingled, the G-prizes that are sold to the pachinko hall by the wholesaler are not necessarily the same G-prizes provided by the pachinko hall to its customers.

The National Police Agency has commented that the Amusement Business Law only regulates pachinko hall operators, but not persons or entities unrelated to the pachinko hall operator, hence an unrelated third party is not prohibited from purchasing G-prizes from customers. Accordingly, the prevailing interpretation of the National Police Agency in its administration of the Amusement Business Law and the Third Party Regulations is that an unrelated third party's purchase of G-prizes from a pachinko player is, subject to compliance with the industry practices as described in this section that have evolved under the prevailing interpretation of the Amusement Business Law in the purchase and sale of G-prizes, legal under the Amusement Business Law. In this regard, Japanese courts and the National Police Agency have determined that pachinko industry practices in the purchase and sale of G-prizes, involving multiple types and originating from multiple sources, including pachinko halls and hall operators, wholesalers and prize buyers, comply with the requirements of the Amusement Business Law. In determining whether a prize buyer is an unrelated third party, and whether a pachinko hall's purchase from such prize buyer is legal in accordance with the prevailing interpretation of the National Police Agency, the following factors must be satisfied: (1) neither party may have the ability to exercise control, whether directly or indirectly, over the other, through (i) any relationship or connection between the personnel of the prize buyer and pachinko hall; (ii) any equity holding or any other capital relationship or connection between the prize buyer and pachinko hall; or (iii) any contract or other agreement between the prize buyer and pachinko halls; (2) G-prizes to be purchased are of market value; and (3) G-prizes are not directly returned from the prize buyer to the pachinko hall.

Each of these factors are satisfied with respect to our pachinko halls. With respect to the first factor, neither our pachinko halls nor the prize buyers have any ability to exercise control over the other, there is no relationship or connection between the personnel of our pachinko halls with those of the prize buyers, and there is no business relationship or equity holding or any other capital relationship or connection between our pachinko halls and the prize buyers. The second and third factors are also satisfied as the G-prizes purchased by the prize buyers have intrinsic value (such as that attributed to the piece of gold or silver embedded in the prize), and there is no direct sale of G-prizes by the prize buyer to the pachinko hall from which the customer obtained the G-prize. Rather, G-prizes are commingled by wholesalers with a variety of G-prizes, ensuring that G-prizes purchased by the pachinko hall are not necessarily the same G-prizes as those purchased by the prize buyer. In order to maintain the independence of our pachinko halls from the prize buyers, we ensure that none of our management, Directors and staff are engaged in the prize buying business.

In addition, because the pachinko hall and the wholesaler must also maintain independence with respect to each other, neither party may have the ability to exercise control, whether directly or indirectly, over the other, through (i) any relationship or connection between the personnel of the pachinko hall and the wholesaler, (ii) any equity holding or any other capital relationship or connection between the pachinko hall and the wholesaler, or (iii) any contract or other agreement between the pachinko hall and the wholesaler.

Each of these factors are also satisfied with respect to our pachinko halls. There is no relationship or connection between the personnel of our pachinko halls with those of the wholesalers and there is no equity holding or any other capital relationship or connection between our pachinko halls and the wholesalers. We adopt the following internal control procedures to ensure the independence of our pachinko halls from our G-prize wholesalers:

- we engage independent third parties to perform annual searches on the shareholding structure and list of directors for all of our G-prize wholesalers to ensure there is no overlapping of shareholders and directors between our Group and our wholesalers;

- we require existing G-prize wholesalers to report any change in shareholding structure and composition of their board of directors in a timely manner;

- we obtain written declarations annually from all of our G-prize wholesalers stating their independence from our Group; and

- we require potential new G-prize wholesalers to provide lists of their shareholders and directors and submit independence declarations, and cross check with the search results performed by independent third parties before the engagement to ensure there is no overlapping of shareholders and directors between our Group and any new G-prize wholesalers.

Our Japan Legal Adviser has advised us that as long as the Three Party System is structured in accordance with prevailing standard industry practices in the pachinko industry, which is followed by us in our operations, and the factors described above are otherwise satisfied, our pachinko operations do not violate the Third Party Regulations or the Amusement Business Law. In this regard, our Japan Legal Adviser, after conducting due diligence searches, has also determined that each of our pachinko halls is independent as evaluated under the factors listed above, from its prize buyers and from its G-prize wholesalers. The due diligence investigation undertaken by our Japan Legal Adviser included the following:

- interviews with the Directors, and if applicable other responsible personnel, of the Company and its subsidiaries;

- review of all the sale and purchase agreements of G-prizes entered into between the Company or any of its subsidiaries and each of the G-prize wholesalers;

- review of written declarations from the G-prize wholesalers confirming that each of them is independent from the prize buyers with whom they contract;

- review of all commercial registry certificates of the G-prize wholesalers; and

- review of all the Operating Licences of all the pachinko halls operated by our Group.

The due diligence investigation undertaken by the [●] regarding the independence of the G-prize wholesalers and prize buyers included the following:

- independent shareholder and director searches on the G-prize wholesalers;

- interviews with the G-prize wholesalers regarding, among others, the nature and extent of their relationships with the Group and their relationships with the prize buyers with whom they conduct business;

- confirmations from the G-prize wholesalers confirming that each of them has no ability to control the Company and its subsidiaries;

- confirmations from the Directors that none of them is, and at all times was not, a connected person of any G-prize wholesaler;

- confirmations from the Directors that neither the Company nor each of them, as individuals, is not, and at all times was not, engaged in any prize buying business or a connected person of any prize buyer;

- review of the master agreements with the G-prize wholesalers; and

- confirmations from the G-prize wholesalers to the Company that there is no capital connection or shared staff with the prize buyers with whom they conduct business.

The National Police Agency has never taken any action against the legality of the pachinko business or the Three Party System. We have been advised by our Japan Legal Adviser that, based on certain court cases, governmental statements and practices, the Three Party System does not violate the Amusement Business Law, nor does it constitute gambling under the Penal Code of Japan. As at the Latest Practicable Date, we have not been found to be in breach of any provision of the Amusement Business Law or the Penal Code of Japan and our Japan Legal Adviser, after conducting due diligence searches, is of the opinion that our pachinko operations do not contravene the Amusement Business Law or the Third Party Regulations. Based on the foregoing, in the opinion of our Japan Legal Adviser, our pachinko operations carried out in the context of the Three Party System do not contravene either the Third Party Regulations or the Amusement Business Law.

REGULATIONS ON PACHINKO OPERATIONS

Pachinko hall business licence

The pachinko hall business is considered an "amusement business" as prescribed by the Amusement Business Law and other relevant laws, regulations, and prefectural ordinances. Under the Amusement Business Law, a pachinko hall operator must obtain a licence (an "Operating Licence") from the Prefectural Public Safety Commission prior to establishing each pachinko hall. Once granted, the Operating Licence will continue to be effective unless and until it is cancelled by the Prefectural Public Safety Commission pursuant to the Amusement Business Law.

When considering an application for an Operating Licence, the Prefectural Public Safety Commission will consider the following factors prescribed by the Amusement Business Law:

- whether the business owner/operator is, with reference to past offences or other instances of regulatory non-compliance, a fit and proper person to hold an Operating Licence (the "Fit and Proper Person Requirements");

- the proposed place of business, including its structural integrity and other building specifications;

- the location of the intended place of business, including town planning and area zoning considerations and proximity to schools and hospitals; and

- the compliance with legal specifications of the pachinko and pachislot machines intended to be installed at the proposed hall.

The Prefectural Public Safety Commission may, at its discretion and at any time, impose conditions on the Operating License which it considers necessary in order to maintain certain standards of moral decency within the pachinko hall and broader food and beverage industry and otherwise for the protection of minors.

Other significant limitations on the holder of an Operating Licence (the "Licence Holder") include restrictions on corporate restructuring and corporate succession, so as to prevent the unauthorised transfer of an Operating Licence. The Prefectural Public Safety Commission must grant prior approval to any corporate restructuring carried out by a holder of an Operating Licence in the relevant prefecture. Any Operating Licence transferee is subject to the same requirements as the original Licence Holder.

The Prefectural Public Safety Commission has broad authority to issue directives or impose sanctions on a Licence Holder, including its business representatives and employees, in circumstances where there has been a breach of the Amusement Business Law or other civil and criminal laws.

The Prefectural Public Safety Commission may cancel an Operating Licence, or issue a directive to suspend operations carried on thereunder, where:

- it has been obtained through fraudulent or other illegal means;
- the Licence Holder no longer satisfies the Fit and Proper Person Requirements;
- the pachinko business has not commenced within six months from the grant of an Operating Licence or there has been any suspension of operations for more than six months without justifiable grounds;
- the whereabouts of the Licence Holder is unknown for more than three months;
- the Licence Holder breaches any legislation pertaining to the business which is the subject of the Operating Licence, and such violation is likely to:
  - cause substantial harm to a good and quiet moral environment; or
  - violate the rights of minors; or
- the Licence Holder fails to comply with a directive of the Prefectural Public Safety Commission or a license condition.

In the event that the pachinko operator has an objection to the cancellation or suspension of an Operating Licence, it may, within six months from such decision, bring an action with the relevant court for the revocation of the administrative decision.

As at the Latest Practicable Date, we had obtained 355 licences for our pachinko hall operations, each of which is currently valid. Our Group's Operating Licences, and the validity of each Licence, were not affected by the Great East Japan Earthquake.

Pachinko and pachislot machine regulations

The Amusement Business Law, and the enforcement regulations prescribed under the Amusement Business Law, also regulate pachinko and pachislot machines installed in pachinko halls by the Licence Holder. One of the Operating Licence conditions is that pachinko and pachislot machines installed in pachinko halls do not encourage a "passion for gambling".

Pachinko and pachislot machines are subject to certain restrictions, such as those listed below, in order to comply with this condition:

- limitations on the value of pachinko balls or pachislot tokens that may be put into play per minute;
- limitations on the number of pachinko balls or pachislot tokens that may be released in various modes of play;
- limitations on the total number of pachinko balls or pachislot tokens that may be released over a continuous period of play;

- the size of the pockets which trigger jackpot mode, as compared to the size of the pachinko ball, may not be significantly larger or smaller than the customary size;

- pachinko balls may not be automatically fired into the field of play without the player directly controlling the shooting strength; and

- the machine may not be capable of easily being illegally modified or otherwise changed.

A person who intends to manufacture or import a pachinko or pachislot machine or to install it may, but is not legally required to, apply for an inspection of the machine by the Security Communications Association for specifications of such imported or manufactured pachinko or pachislot machine. A machine manufacturer typically submits its machine prototypes to testing by the Security Communications Association. Machine prototypes that pass such testing receive certificates. Each machine subsequently manufactured according to that prototype will also have a certificate showing its compliance with such testing. Purchasing machines from manufacturers that have received this approval reduces the risk of installing machines that do not comply with the legal requirements. A pachinko operator that intends to increase or change its number of machines, including the transfer of a machine to a different pachinko hall, must obtain prior written permission from the Prefectural Public Safety Commission.

Because we only purchase machines from manufacturers that submit their machine prototypes for testing by the Security Communications Association, our pachinko and pachislot machines each have a certificate demonstrating compliance with those tests and have passed all inspections conducted by the relevant Prefectural Public Safety Commission during the Relevant Period.

Adjustment of pins

Under the Amusement Business Law, the pachinko hall must obtain permission from the Prefectural Public Safety Commission before making any changes to an installed pachinko or pachislot machine. Therefore, a machine which has been tested and approved by the Security Communications Association and the relevant Prefectural Public Safety Commission, should not be altered after it is installed. This requirement prevents improper modifications that may change the machine beyond the permissible range of operation.

Pins often shift during the normal course of play on a pachinko machine as the pachinko balls cascade down, through and collide into the pins in the playing field. Consistent with industry practice, we generally perform daily adjustments on the angle of the pins and pinwheels in order to maintain compliance with, among others, the limitations on payouts and jackpot mode. These adjustments do not require prior approval from the National Public Safety Commission.

No court cases have considered the definition or interpretation of "change" to a pachinko machine, so far as it relates to the adjustment of pins as described above; however, under current practices, it is generally understood that the adjustment of pins would not be construed as a "change" in pachinko machines if the following three criteria are satisfied:

- the pin adjustment does not involve any bending or other modification of the shape of the pins;

- the purpose of the pin adjustment is to comply with the specification restrictions with respect to each pachinko machine, and to maintain the permissible average ball release rate of the hall's overall pachinko operations; and

- the pachinko machine for which the pin adjustment has been performed continues to be in compliance with the specification restrictions listed above.

Our Japan Legal Adviser, after conducting due diligence investigations (which included interviews with the responsible officers of the Company and a review of written explanations prepared by the legal department of the Group), has confirmed that we have strictly complied with the three criteria listed above regarding the adjustment of pins and are in full compliance with the requirements of the Amusement Business Law.

Trading used pachinko machines

The license, approval or permit requirements under Japanese law and regulations for dealing in pachinko and pachislot machines are limited to a permit for dealing in second-hand goods under the Used Goods Dealer Act. This permit is issued by the Prefectural Public Safety Commission.

It is also customary for dealers of pachinko machines to register as such with the Japan Amusement-Related Business Association, and to obtain a registration certificate. Without this registration certificate, pachinko operators will refuse to deal with such unregistered dealer. Kanto Daido has obtained both a registration certificate and a permit under the Used Goods Dealer Act.

Playing costs, prize offerings and prize value

The Amusement Business Law and the National Public Safety Commission regulations regulate pachinko and pachislot playing costs, the offering of prizes and the upper limit of the value of prizes.

The Regulations prescribe the following playing costs:

Pachinko machine	Machine that uses balls	4 yen or less per ball
Pachislot machine	Machine that uses tokens	20 yen or less per token

The value of prizes offered may not exceed ¥10,000, and the types of prizes are generally limited to everyday general consumer goods, such as snacks, beverages, cigarettes and sundry household items. Our Japan Legal Adviser has confirmed that G-prizes, which include decorative cards with a small embedded piece of gold or silver and coin shaped pendants of gold or silver, comply with this regulation. The market value of the prizes offered must also be equivalent to the value of the pachinko balls or pachislot tokens redeemed by the player for such prizes. In addition, in order for the prizes to meet the diverse range of expectations of customers, the hall must offer as prizes a wide range of items suitable for everyday use.

The Amusement Business Law prohibits Licence Holders from:

- offering cash or securities as prizes;

- buying back prizes awarded to customers; and

- allowing customers to take pachinko balls, pachislot tokens or any other similar objects provided for playing pachinko or pachislot outside the hall.

Offering cash or securities as prizes constitutes a breach of the Amusement Business Law, and as a result the pachinko operator may be subject to suspension of business for a period ranging from 20 days to 180 days as an administrative sanction. In addition, a penalty of imprisonment up to six months, or a fine of ¥1 million may be imposed as criminal sanctions.

Membership systems

The Amusement Business Law prohibits Licence Holders from issuing any written documentation indicating that pachinko balls or pachislot tokens are being held for a customer. However, Article 16-9(2) of the Standards for the Interpretation and Operation of the Act on Control and Improvement of Amusement Business issued by the National Police Agency provides that a membership card does not constitute written documentation of the hall holding balls or tokens for a customer if the number of such balls or tokens is not recorded on the card itself and is stored only on computers in the halls.

Our Japan Legal Adviser has verbally consulted with the National Police Agency regarding the relevant provisions of the Amusement Business Law and Article 16-9(2) of the Standards for the Interpretation and Operation of the Act on Control and Improvement of Amusement Business and has confirmed that our membership system does not constitute written documentation of balls or tokens being held for customers.

Operating hours and restrictions

The Amusement Business Law restricts pachinko hall opening hours to the period from sunrise to 12:00 a.m. However, each prefecture is permitted to impose more stringent limits on operating hours and such additional restrictions are common. In Tokyo, for example, halls are prohibited from operating between 11:00 p.m. and 10:00 a.m. the following day.

In addition, customers are forbidden from taking pachinko balls or pachislot tokens from the pachinko halls and therefore are deemed to "rent" the balls or tokens with which they play pachinko or pachislot.

Environmental regulations

A Licence Holder must conduct business in such a way as not to cause noise or vibrations (limited to voices of people and other noises and vibrations that are part of operating a business) in the area surrounding the place of business that exceed the limits specified by prefectural ordinances.

LAWS AND REGULATIONS

The Amusement Business Law prescribes the following noise limits:

	Numerical Value		
Regional	**Daytime**	**Evening**	**Late Night[1]**
(1) In areas specified by a particular prefecture in a prefectural ordinance as necessary to be especially quiet due to condensed housing or other similar areas.	55 decibels	50 decibels	45 decibels
(2) In areas specified by a particular prefecture in a prefectural ordinance as necessary not to have extreme noise due to condensed stores and other similar areas.	65 decibels	60 decibels	55 decibels
Areas other than the areas in (1) and (2) above . .	60 decibels	55 decibels	50 decibels

(1) "Late Night" refers to 12:00 a.m. until sunrise.

Advertising and promotion regulations

The Amusement Business Law requires a Licence Holder to advertise or promote their business in such a way that it will not likely interfere with the peace and quiet surrounding the place of business. Under the published guidelines, the following methods of advertisement are likely to constitute an "interference with peaceful and quiet surroundings":

- displaying sexually explicit or other adult material;
- advertising or promoting the manipulation of pins or otherwise encouraging customers' "passion for gambling"; or
- noise levels beyond prescribed limits in public areas.

Prohibition on minors

Customers of pachinko halls must be at least 18 years of age. The Amusement Business Law provides that the Licence Holder must post a sign at the entrance to the place of business prohibiting entry by those under the age of 18. The sign must be posted so as to be easily seen by the public.

Building and construction regulations

If a Licence Holder adds to the structure, makes structural changes or undertakes any other construction or changes to the facilities of the place of business, it must obtain prior permission from the Prefectural Public Safety Commission, with the exception of some specified minor changes.

Examples of structural or equipment modifications that require permission include extensive repairs to the place of business, changes to the location of guest rooms or floor space, and changes to the facilities such as adding walls or Japanese-style sliding doors to partition the interior of the place of business.

We must comply with the Building Standard Act, which requires any entity that constructs, substantially repairs or remodels, whether by itself or through a third-party contractor, any building that is larger than a certain scale or that is located in certain designated areas to obtain a certificate of prior confirmation for the planned construction, repair or remodelling as well as a certificate of completion thereof from an inspector appointed by the local authorities.

We must also comply with the City Planning Act, which designates areas where certain usage is not allowed. No Operating Licence will be granted unless the pachinko hall is located in an area where it is permitted under the City Planning Act.

ANTI-MONEY LAUNDERING

The anti-money laundering laws in Japan do not impose any specific obligations on pachinko operators. Unlike casino gaming, where customers purchase casino chips that have little or no intrinsic value but have high face values and have the potential to win or lose substantial sums in a short period of time, pachinko presents the opportunity over a relatively long period of time to win G-prizes that have a limited intrinsic value. The inherent mechanical limitations on pachinko ball and pachislot token dispensers render it extremely difficult for a pachinko player to obtain the number of pachinko balls or pachislot tokens necessary to redeem G-prizes of significant value in a short period of time as a ball or token dispenser can only release about 750 balls or 600 tokens per minute. Thus, a customer seeking to launder even an insignificant amount of cash would need to spend at least several hours exchanging the cash into balls or tokens in addition to a considerably longer period of time putting such balls or tokens into play in a machine.

Furthermore, we do not allow customers to exchange balls or tokens into prizes without first putting them into play in the machines and we have put in place internal policies and internal control measures to prevent customers from violating this requirement. Our hall staff closely monitor the number of balls rented and the number of balls played in each of the machines. Any irregularities in such numbers are closely followed up by hall staff. Surveillance cameras are also installed in the pachinko hall, and hall staff patrol the pachinko hall during its operating hours in order to detect any suspicious activity. Thus, it would be inefficient and highly impractical to engage in money laundering activities through pachinko or pachislot. For more information on our anti-money laundering procedures, see "Internal Controls and Anti-Money Laundering — Internal Controls on Money Laundering".

LABOUR PROTECTION

The Industrial Safety and Health Act (Act No. 57 of 1972) provides standards for employers regarding the health and safety of employees including the employer's responsibilities and plans for accident prevention in the workplace. An employer with more than 50 employees must take reasonable measures to prevent workplace accidents, and must also make efforts to protect employees from the risk of passive smoking.

Anti-Smoking

Under the Health Promotion Act (No. 103 of 2002), a person who has control over a facility used by many people must endeavour to prevent passive smoking in the facility. A pachinko hall is deemed to constitute such a facility, as it is used by many people. Also, under the Industrial Safety and Health Act (Act No. 57 of 1972), an employer must endeavour to make the workplace comfortable for employees, and based upon this provision, the Ministry of Health, Labour and Welfare has implemented guidelines to promote the prevention of passive smoking in the workplace. These guidelines do not impose any legal obligation on, nor any penalties or sanctions for noncompliance by, facility operators. Amendments to the Industrial Safety and

Health Act have been proposed but the discussion has been postponed to the next Diet session, which may result in more stringent guidelines or create obligations with respect to the prevention of passive smoking. Also, there are a variety of laws and regulations adopted and enforced, and others which have been proposed, at the local and prefectural levels restricting smoking. Generally, these local anti-smoking laws would establish exemption from their application to establishments such as bars, restaurants and pachinko halls.

PERSONAL INFORMATION PROTECTION

The Personal Data Act requires that a Japanese business operator handling personal information must limit the use of personal information to the stated purpose and to properly manage the personal information in their possession, and forbids it from providing personal information to third parties without consent from the individual to do so.

INTELLECTUAL PROPERTY REGULATIONS

In Japan, patents are protected by the Patent Act and the Utility Model Act (Act No.123 of 1959). Designs are protected by the Design Act (Act No.125 of 1959), and trademarks by the Trademark Act (Act No.127 of 1959). We must comply with these, in addition to various international treaties Japan has entered into, to maintain our intellectual property rights.

TAXATION

Dividends tax

Generally, non-resident Shareholders are subject to Japanese withholding tax on dividends paid by Japanese corporations. Such taxes are withheld prior to payment of dividends as required by Japanese law. Stock splits are, in general, not a taxable event. In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-resident Shareholders is generally 20%.

Under the Hong Kong-Japan Tax Treaty, the Japanese withholding tax rate that applies to dividends payable to a beneficial holder of Shares who is a Hong Kong resident is reduced to a rate not exceeding 10% (or not exceeding 5% for corporate Shareholders who are interested in 10% or more of the voting Shares of our Company for the six months ending on the record date for dividend distribution). As a general rule, a beneficial owner of Shares (other than [●]) who is entitled to a reduced rate of Japanese withholding tax on payments of dividends is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with other required forms and documents) in advance, through the withholding agent to the relevant tax authority before the payment of dividends. However, a beneficial owner who does not submit an application in advance will be entitled to claim a refund from the relevant Japanese tax authority of the taxes withheld in excess of the applicable tax treaty rate by complying with certain subsequent filing procedures. A standing proxy for the beneficial owner may make the application on his behalf. The Hong Kong-Japan Tax Treaty would apply to a non-resident of Japan Shareholder who is a resident of Hong Kong.

For further information, see "Material Shareholders' Matters under Japanese Law — Dividends — Japanese withholding tax for dividend payments".

LAWS AND REGULATIONS

Capital gains tax

Under the Hong Kong-Japan Tax Treaty, non-resident Shareholders are generally not subject to taxation for capital gains on a transfer our Shares. For further information on capital gains tax in Japan, see "Appendix III — Summary of Articles of Incorporation, the Companies Act and Taxation in Japan".

Estate and gift tax

Japanese inheritance tax and gift tax at progressive rates may be payable by an individual who has acquired ordinary shares of our Company as a legatee, heir or donee even though neither the acquiring individual nor the deceased nor donor is a Japanese resident.

OTHER

A Japanese company must, upon incorporation, register with the legal affairs bureau and continue to update its details from time to time. It must also register with the local tax agency and must annually report on corporate tax, value added tax or other taxes.

HISTORY, DEVELOPMENT AND REORGANISATION

OUR HISTORY AND ORIGIN

We have over four decades of operating history. We are the second largest pachinko hall operator in Japan in terms of the total value of pachinko balls and pachislot tokens rented in 2010 and the largest in terms of number of halls according to Yano Research. Our network of pachinko halls principally operates under our *DYNAM* (ダイナム), *Yuttari Kan* (ゆったり館) and *Shinrai no Mori* (信頼の森) brands. Over the course of our business history, we have been continuously adapting to the changing preferences of our pachinko players.

Our origins date back to 1967 when Sawa Shoji Co., Ltd. was established in Japan by Mr. Yohei SATO (佐藤洋平), the father of Mr. Sato. Sawa Shoji Co., Ltd. was wholly-owned by Mr. Yohei SATO and was the predecessor of Dynam, which was, and remains to be, the holding company of the majority of our pachinko hall operations. The name "*Sawa*" was derived by combining the Japanese characters "*sa*" (from Sato 佐藤) and "*wa* 和" (*harmony*).

Our four decades of pachinko hall operations began with our first two pachinko halls in Kameari (亀有) and Kanamachi (金町), Tokyo, which commenced business in July 1967. In 1970, Mr. Sato and the Sato Family Members succeeded the interests in Sawa Shoji Co., Ltd. from Mr. Yohei SATO. In 1978, Mr. Sato was named as the president and representative director (*daihyo torishimariyaku* 代表取締役) of Sawa Shoji Co., Ltd. and our pachinko hall operations have since been under his leadership and direction.

In 1985, the revision of the Amusement Business Law, which standardised the licensing regime of the pachinko industry across Japan, provided a favourable environment for the development of a nationwide pachinko chain in Japan. The expansion of our pachinko hall operation came in 1987 when Sawa Shoji Co., Ltd. was renamed as DYNAM Co., Ltd.*(株式会社ダイナム) which, according to Mr. Sato, was part of his plan to transform his family business into a nationwide operation. The name *DYNAM* (ダイナム) is an abbreviation of *Dynamic Amusement*, emphasising our pachinko halls as an exciting entertainment option for our customers. In 1989, the opening of our pachinko hall in Shibata (新発田), Niigata Prefecture (新潟県) marked the beginning of our expansion beyond the Tokyo metropolitan area. We extended our footprint beyond the Kanto (関東) region in 1992 by establishing our first hall on the northern island of Hokkaido (北海道) in Iwamizawa (岩見沢). Subsequently, we expanded into Kyushu (九州) in 2001 and Shikoku (四国) in 2002, upon which we had established presence in four of the major regions in Japan.

We developed our *Yuttari Kan* (ゆったり館), and *Shinrai no Mori* (信頼の森) brands in the 2000s. While maintaining our appeal to traditional players we have established our new brands to emphasise the entertainment aspect of pachinko halls. Our first *Yuttari Kan* (ゆったり館) and *Shinrai no Mori* (信頼の森) halls opened in 2007 and 2009, respectively, featuring low playing cost game machines, and a wider selection of general prizes.

In particular, our *Shinrai no Mori* (信頼の森) brand is a new concept in the pachinko industry. *Shinrai no Mori* (信頼の森) came from two Japanese words, "*Shinrai* 信頼" (*trust*) and "*Mori* 森" (*forest*). By setting up designated closed-off smoking areas, air purifiers and segregated relaxation areas, we are committed to creating an environment with high air quality at our *Shinrai no Mori* (信頼の森) pachinko halls, directly addressing the feedback of potential pachinko players who are generally discouraged by high noise levels and the possibility of passive smoking at pachinko halls, according to our own market research. Our new brands have been established to attract a more diverse customer base. In 2009, the number of our pachinko halls had reached 300.

To further expand our business, we acquired 100% interests in three regional pachinko hall operators in 2009 and 2010, namely Cabin Plaza, Daikokuten, and Okuwa Japan, adding to our network eight pachinko halls in Fukushima (福島県), Yamanashi (山梨県), Mie (三重県) and Aichi (愛知県) prefectures which were previously under served by our network. These pachinko halls operate under the brands *Cabin Plaza* (キャビンプラザ) and *Yasumi Jikan* (やすみ時間). Currently, Cabin Plaza operates four pachinko halls in total. Two are traditional halls operating under the *Cabin Plaza* (キャビンプラザ) brand, and two are *Yuttari Kan* halls operating under our *Cabin Plaza* (キャビンプラザ) and *Yasumi Jikan* (やすみ時間) brands, respectively. Daikokuten currently operates two pachinko halls and Okuwa Japan operates three pachinko halls, all of which are *Yuttari Kan* halls operating under our *Yasumi Jikan* (やすみ時間) brand.

Under the leadership of Mr. Sato, our pachinko operations have expanded from two pachinko halls in Tokyo in 1970 to 355 halls in 46 prefectures across Japan, as at 31 March 2012.

Key business milestones

The key milestones of the business development of our Group are:

Year	Events
1967	Mr. Yohei SATO founded Sawa Shoji Co., Ltd. in Tokyo, Japan
	Our pachinko hall operations began as we opened our first halls in Kameari (亀有) and Kanamachi (金町), Tokyo
1970	Mr. Sato succeeded his interests in Sawa Shoji Co., Ltd. from Mr. Yohei SATO
1978	Mr. Sato took control of the business operation of Sawa Shoji Co., Ltd. and became its president and representative director (*daihyo torishimariyaku* 代表取締役)
1987	Sawa Shoji Co., Ltd. was renamed as DYNAM Co., Ltd.* (株式会社ダイナム)
1989	Our first suburban pachinko hall opened in Shibata (新発田), Niigata Prefecture (新潟県)
1992	Our first hall in Hokkaido (北海道) region opened in Iwamizawa (岩見沢)
1994	Our first pachinko hall built primarily with wooden materials opened in Ebetsu (江別), Hokkaido (北海道), as part of our strategy to rationalise the construction and development costs associated with our expansion
2001	The number of pachinko halls in our network reached 100 as we opened a new hall in Takaoka (高岡), Toyama Prefecture (富山県)
	Our first hall in Kyushu (九州) region opened in Miyakonojo (都城), Miyazaki Prefecture (宮崎県)
2002	Our first hall in Shikoku (四国) region opened in Noichi (野市), Kochi Prefecture (高知県), upon which we achieved a presence in four of the major regions in Japan
2004	The number of our pachinko halls reached 200 as we opened a new hall in Yamaguchi-Onoda (山口小野田), Yamaguchi Prefecture (山口県)

HISTORY, DEVELOPMENT AND REORGANISATION

Year	Events
2007	We began to actively promote lower-priced games and a wider selection of general prizes under our *Yuttari Kan* (ゆったり館) brand. Our first pachinko hall operating under our *Yuttari Kan* (ゆったり館) brand opened in Ebetsu (江別), Hokkaido (北海道)
2008	The number of our *Yuttari Kan* (ゆったり館) halls exceeded 100 upon the opening of a pachinko hall in Uekicho (植木町), Kumamoto Prefecture (熊本県)
2009	We launched our first *Shinrai no Mori* (信頼の森) pachinko hall in Kita-Akita (北秋田), Akita Prefecture (秋田県)
	We acquired Cabin Plaza and Daikokuten, adding six pachinko halls in Fukushima (福島県) and Yamanashi (山梨県) Prefectures
2010	We acquired Okuwa Japan, adding two pachinko halls in Mie (三重県) and Aichi (愛知県) Prefectures

OUR GROUP COMPANIES

Our Company was incorporated in Japan on 20 September 2011 and has ten directly wholly-owned subsidiaries and one indirectly wholly-owned subsidiary. Prior to our incorporation and the implementation of our Reorganisation, DYH was the holding company of our subsidiaries and our business.

Our predecessor

DYH

DYH is our predecessor and was, prior to our Reorganisation, the holding company of our eleven wholly-owned subsidiaries. DYH was incorporated in Japan as a limited company *(yugen-gaisha* 有限会社) under the name of Rich-O Co., Ltd. on 15 December 1987 and was subsequently reorganised into a stock company *(kabushiki-gaisha* 株式会社) on 11 December 2003.

DYH was Mr. Sato's personal asset management company until the implementation of the 2006 Restructuring in June 2006, whereby DYH became the holding company of our Group. In September 2011, in preparation for [●], DYH underwent our Reorganisation, as result of which our Group was consolidated into our Company. See "Our corporate development" in this section below for the details of our 2006 Restructuring and our Reorganisation.

DYH does not form part of our Group.

Our for-profit subsidiaries

Dynam

Dynam is our principal wholly-owned subsidiary which is principally engaged in the operation of pachinko halls.

Dynam was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) in Japan under the name of Sawa Shoji Co., Ltd. on 25 July 1967. As at the date of this document, Dynam has an issued share capital of ¥5,000,000,000, which represented 32,556,718 shares of nil par value and the number of shares authorised to be issued by Dynam is 130,000,000 shares.

As at the date of incorporation, Dynam was wholly-owned by Mr. Yohei SATO, the father of Mr. Sato, who has subsequently bequested his interests to Mr. Sato and the Sato Family Members. Throughout its corporate history, Dynam has expanded its share capital and number of shareholders by numerous rights issues to existing shareholders and issue and allotment of new shares to new shareholders, which include our present Institutional Shareholders, Director Shareholders and Employee Shareholders. Details of Dynam's corporate history is set out under the paragraphs headed "Statutory and General Information — A. Further Information about our Company — 3. Changes in the share capital of our subsidiaries" in Appendix V to this document.

Dynam was the holding company of our Group until the implementation of the 2006 Restructuring, whereby our Group was consolidated into DYH. In preparation for [●], DYH transferred its entire interests in Dynam to our Company pursuant to our Reorganisation, making Dynam a directly wholly-owned subsidiary of our Company. Dynam does not hold any subsidiaries within our Group.

Dynam Data

Dynam Data is a directly wholly-owned subsidiary of our Company which is principally engaged in the provision of accounting and payroll administrative services to members of our Group.

Dynam Data was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) on 31 October 2003. As at the date of this document, Dynam Data has an issued share capital of ¥10,000,000, which represented 200 shares of nil par value and the number of shares authorised to be issued by Dynam Data is 1,600 shares.

Dynam Data was an indirectly wholly-owned subsidiary of Dynam until the implementation of the 2006 Restructuring, whereby Dynam Data was consolidated into DYH. In preparation for [●], DYH transferred its entire interests in Dynam Data to our Company pursuant to our Reorganisation, making Dynam Data a directly wholly-owned subsidiary of our Company.

Dynam Land

Dynam Land is a directly wholly-owned subsidiary of our Company which is principally engaged in the provision of property and building management services to members of our Group.

Dynam Land was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) on 31 October 2003. As at the date of this document, Dynam Land has an issued share capital of ¥1,020,000,000, which represented 2,400 shares of nil par value and the number of shares authorised to be issued by Dynam Land is 4,000 shares.

Dynam Land was an indirectly wholly-owned subsidiary of Dynam until the implementation of the 2006 Restructuring, whereby Dynam Land was consolidated into DYH. In preparation for [●], DYH transferred its entire interests in Dynam Land to our Company pursuant to our Reorganisation, making Dynam Land a directly wholly-owned subsidiary of our Company.

P Trading

P Trading is a directly wholly-owned subsidiary of our Company which is principally engaged in, through Kanto Daido, the sourcing, trading and disposal of our pachinko and pachislot game machines. P Trading's role is limited to liaison and communication with machine suppliers, dealers and pachinko hall operators. The actual sourcing, trading and disposal of

such machines is conducted through Kanto Daido, which is a holder of a registration certificates from the Amusement-Related Business Association and a permit for dealing in second hand goods issued by the Prefectural Public Safety Commission. As P Trading does not directly sell or purchase any pachinko or pachislot machines, our Japan Legal Adviser has confirmed that neither registration certificate(s) nor permits are required under Japanese law for P Trading to conduct its business activities.

P Trading was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) on 1 July 2010. As at the date of this document, P Trading has an issued share capital of ¥30,000,000, which represented 600 shares of nil par value and the number of shares authorised to be issued by P Trading is 6,000 shares.

P Trading was a directly wholly-owned subsidiary of DYH. In preparation for [●], DYH transferred its entire interests in P Trading to our Company pursuant to our Reorganisation, making P Trading a directly wholly-owned subsidiary of our Company.

Dynam Advertisement

Dynam Advertisement is a directly wholly-owned subsidiary of our Company which is principally engaged in the marketing, advertisement planning and public relations affairs of our Group. On an as-required basis, Dynam Advertisement also provides marketing services to members of the Remaining DYH Group.

Dynam Advertisement was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) on 1 July 2010. As at the date of this document, Dynam Advertisement has an issued share capital of ¥30,000,000, which represented 600 shares of nil par value and the number of shares authorised to be issued by P Trading is 6,000 shares.

Dynam Advertisement was a directly wholly-owned subsidiary of DYH. In preparation for [●], DYH transferred its entire interests in Dynam Advertisement to our Company pursuant to our Reorganisation, making Dynam Advertisement a directly wholly-owned subsidiary of our Company.

Shinrainomori

Shinrainomori is a directly wholly-owned subsidiary of our Company, the main business objective of which is the development of any franchise chain under our *Shinrai No Mori* (信頼の森) brand. We have not commenced the development of any franchise chain under our *Shinrai no Mori* (信頼の森) brand since the establishment of Shinrainomori in 2008 as our *Shinrai No Mori* (信頼の森) chain is still in a relatively early stage of development. Currently, we do not have any plan to do so in the foreseeable future, and Shinrainomori is now a dormant company with no business operation.

Shinrainomori was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) on 3 December 2008. As at the date of this document, Shinrainomori has an issued share capital of ¥10,000,000, which represented 200 shares of nil par value and the number of shares authorised to be issued by Shinrainomori is 10,000 shares.

Shinrainomori was a directly wholly-owned subsidiary of DYH. In preparation for [●], DYH transferred its entire interests in Shinrainomori to our Company pursuant to our Reorganisation, making Shinrainomori a directly wholly-owned subsidiary of our Company.

Kanto Daido

Kanto Daido is an indirectly wholly-owned subsidiary of our Company (through P Trading) which is principally engaged in the trading of second-hand pachinko and pachislot game machines.

Kanto Daido was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) on 22 January 1992. As at the date of this document, Kanto Daido has an issued share capital of ¥50,000,000, which represented 1,300 shares of nil par value and the number of shares authorised to be issued by Kanto Daido is 2,000 shares.

Kanto Daido was acquired by our Group pursuant to an equity transfer agreement dated 1 July 2008, whereby Mr. Kosuke OKA (岡孝亮) transferred his entire interests in Kanto Daido to P Leasing, a wholly-owned subsidiary of DYH, at a consideration of ¥20 million, equivalent to the net asset value of Kanto Daido at that time. In preparation for [●], P Leasing transferred its entire interests in Kanto Daido to P Trading pursuant to our Reorganisation, making Kanto Daido an indirectly wholly-owned subsidiary of our Company.

Cabin Plaza

Cabin Plaza is a directly wholly-owned subsidiary of our Company which is principally engaged in the operation of three pachinko halls in Fukushima prefecture (福島県), which operates under the brand name *Cabin Plaza* (キャビンプラザ), as well as one pachinko hall located in Shizuoka prefecture (静岡県), operating under the brand name *Yasumi Jikan* (やすみ時間).

Cabin Plaza was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) on 25 May 1988. As at the date of this document, Cabin Plaza has an issued share capital of ¥10,000,000, which represented 200 shares of nil par value and the number of shares authorised to be issued by Cabin Plaza is 2,000 shares.

Cabin Plaza was acquired by our Group pursuant to an equity transfer agreement dated 1 April 2009, whereby DYH agreed to purchase, and Mr. Sang-gon KIM (金相坤) and Mrs. Kung San BUN (文君仙) agreed to sell, the entire issued share capital of Cabin Plaza at a consideration of ¥1 billion. The consideration was calculated at a price of ¥5 million per share with reference to the then net asset value of Cabin Plaza. In preparation for [●], DYH transferred its entire interests in Cabin Plaza to our Company pursuant to our Reorganisation, making Cabin Plaza a directly wholly-owned subsidiary of our Company.

Daikokuten

Daikokuten is a directly wholly-owned subsidiary of our Company which is principally engaged in the operation of two pachinko halls in Yamanashi prefecture (山梨県) operating under the brand name *Yasumi Jikan* (やすみ時間).

Daikokuten was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) on 12 March 1977. As at the date of this document, Daikokuten has an issued share capital of ¥95,000,000, which represented 37,000 shares of nil par value and the number of shares authorised to be issued by Daikokuten is 64,000 shares.

Daikokuten was acquired by our Group pursuant to an equity transfer agreement dated 1 December 2009, whereby DYH agreed to purchase, and Ichiroku Shoji Co., Ltd.* (株式会社一六商事) agreed to sell, the entire issued share capital of Daikokuten at a consideration of approximately ¥350 million. The consideration was calculated with reference to the then net

asset value of Daikokuten. In preparation for [●], DYH transferred its entire interests in Daikokuten to our Company pursuant to our Reorganisation, making Daikokuten a directly wholly-owned subsidiary of our Company.

Okuwa Japan

Okuwa Japan is a directly wholly-owned subsidiary of our Company which is principally engaged in the operation of three pachinko halls in Mie (三重県) and Aichi (愛知県) prefectures, operating under the brand name *Yasumi Jikan* (やすみ時間).

Okuwa Japan was incorporated with limited liability as a stock company *(kabushiki-gaisha* 株式会社) on 3 July 1996. As at the date of this document, Okuwa Japan has an issued share capital of ¥200,000,000, which represented 7,400 shares of nil par value and the number of shares authorised to be issued by Okuwa Japan is 10,000 shares.

Okuwa Japan was acquired by our Group pursuant to an equity transfer agreement dated 1 June 2010, whereby DYH agreed to purchase, and Mr. Atsushi OKUWA (大桑淳) and Mrs. Satomi OKUWA (大桑里美) agreed to sell, the entire issued share capital of Okuwa Japan at a consideration of approximately ¥30 million. The consideration was calculated with reference to the net asset value of Okuwa Japan as at 31 May 2010. In preparation for [●], DYH transferred its entire interests in Okuwa Japan to our Company pursuant to our Reorganisation, making Okuwa Japan a directly wholly-owned subsidiary of our Company.

Our Directors confirm that all of the acquisitions and investments we made during the Relevant Period were not entered into with any connected person of our Group. The consideration in each of the acquisitions and investments was determined on an arm's length basis. The acquisitions of the share capital in each of Cabin Plaza, Daikokuten, Okuwa Japan and Kanto Daido complied with all applicable laws and regulations in Japan. As confirmed by our Japan Legal Adviser, we were not required under Japanese law to obtain any prior government or regulatory approvals before making these acquisitions.

Our non-profit subsidiary undertaking

Shinrainomori Association

Shinrainomori Association is a general incorporated association *(ippan shadan houjin* 一般社団法人) organised under the GIA/GIF Law in Japan, which was founded by Mr. Sato, our Chief Executive Officer, chairman of our Board and executive Director, on 3 December 2008. Under the GIA/GIF law, Shinrainomori Association is a non-profit organization which is prohibited from distributing dividends and residual assets to its members.

Under the GIA/GIF Law, there is no concept of shareholding nor equity interest in a general incorporated association *(ippan shadan houjin* 一般社団法人). The initial funds of Shinrainomori Association, which does not confer any equity ownership nor management influence, of ¥1 million was injected by Dynam.

The organisational structure of Shinrainomori Association is provided for under the GIA/GIF Law, comprising a general meeting of members, which is the highest decision-making body, and a board of directors, which executes day-to-day operation. Directors are appointed and dismissed by the general meeting of members. Mr. Sato and Mr. Kohei SATO, a director of Dynam, are currently directors of Shinrainomori Association and Dynam, Cabin Plaza, Daikokuten, and Okuwa Japan, each being a wholly-owned subsidiary of our Company, are currently members of Shinrainomori Association. Only members are entitled to voting rights in the general meeting of members.

Shinrainomori Association was established as a supporting arm of our *Shinrai No Mori* (信賴の森) brand to undertake non-profit brand-building activities and corporate social responsibility initiatives such as making donations to charities. The source of funding of these donations originated from the membership fees paid by Dynam, Cabin Plaza, Daikokuten and Okuwa Japan, and the time and amount of these donations is determined by Mr. Sato and Mr. Kohei SATO in their capacities as directors of Shinrainomori Association. As at the Latest Practicable Date, Shinrainomori Association had not engaged in any profit-earning business activities with any Independent Third Party.

For each of the financial years ended 31 March 2010, 2011 and 2012, the aggregate membership fee paid by Dynam, Cabin Plaza, Daikokuten and Okuwa Japan to Shinrainomori Association was nil, ¥650,000 and ¥7,800,000 (equivalent to approximately HK$733,083), respectively.

Details of the changes in our subsidiaries' share capital is set out under the paragraphs headed "Statutory and General Information — Further Information about our Company — Changes in the share capital of our subsidiaries" in Appendix V to this document.

Dissolved Entities

The Dissolved Entities include the following companies and general incorporated foundations:

P Brand Planning

P Brand Planning was incorporated with limited liability as a stock company (*kabushiki-gaisha* 株式会社) under the Companies Act in Japan on 9 January 2004 and was a wholly-owned subsidiary of Dynam Investment. Prior to its dissolution, P Brand Planning was primarily engaged in (i) communication and liaison with manufacturers of game machines regarding the specifications and acquisitions of private brand machines; and (ii) the trading of LCD monitors. The dissolution of P Brand Planning was completed on 24 February 2011. Upon its deregistration, P Brand Planning transferred ¥4 million of cash reserves and ¥21.7 million of liabilities, all of which were generated as a result of corporation tax loss, to DYH.

Subsequent to the dissolution of P Brand Planning, the businesses of P Brand Planning were succeeded by P Trading (in respect of the private brand machines) and Rich-O Korea (in respect of the LCD monitors).

Dynamic Design

Dynamic Design was incorporated with limited liability as a stock company (*kabushiki-gaisha* 株式会社) under the Companies Act in Japan on 13 November 2003 and was a wholly-owned subsidiary of Dynam Investment. Prior to its dissolution, Dynamic Design was primarily engaged in the roasting and sale of coffee beans. The dissolution of Dynamic Design was completed on 1 February 2008 and did not involve the transfer of any liabilities to our Group.

Subsequent to the dissolution of Dynamic Design, the business of coffee bean roasting and sales was succeeded by Beijing GEO.

As at the Latest Practicable Date, the Dissolved Entities had been dissolved and their respective registrations had been cancelled. Save as disclosed above, the dissolution and deregistration of the Dissolved Entities did not involve any transfer of liabilities to our Group. The Dissolved Entities were solvent at the time they were dissolved. All the contracts of the

Dissolved Entities were fulfilled before their respective dissolutions and deregistrations. There were no outstanding contracts of the Dissolved Entities upon their dissolutions. Customers of the Dissolved Entities are now served by our Group or the Remaining DYH Group.

OUR CORPORATE DEVELOPMENT

Over the course of our corporate history, we took a series of restructuring steps for the purpose of streamlining our corporate structure and optimising our shareholding control. These restructuring steps comprise the following:

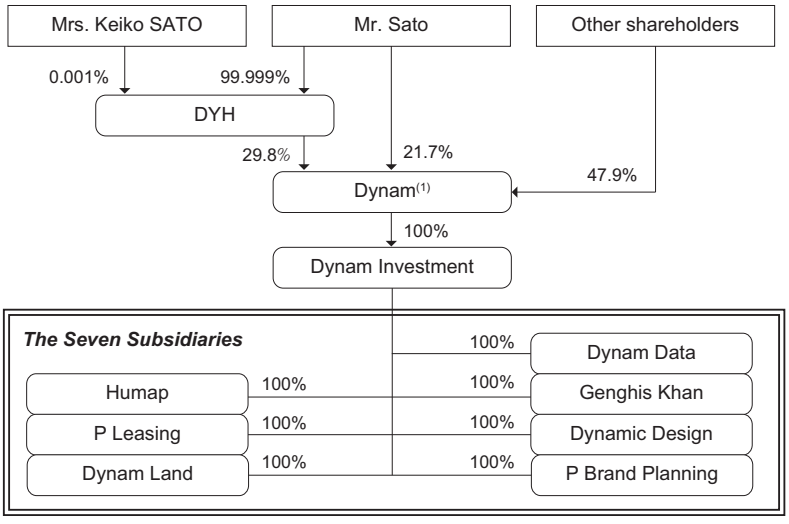
(a) **the 2006 Restructuring**, whereby the holding company of our Group changed from Dynam to DYH; and

(b) **the Reorganisation**, whereby the businesses and assets of our Group were consolidated into our Company in preparation for [●].

Historically, all of our Group's businesses were controlled by, directly or indirectly, our Controlling Shareholders and any changes made to the corporate structure of our Group pursuant to the 2006 Restructuring and the Reorganisation were akin to an intra-group transfer.

2006 Restructuring

The 2006 Restructuring was designed to (i) optimise and streamline the shareholding structure of Mr. Sato's business ventures for tax efficiency reasons; and (ii) enhance the corporate governance of our Group through diversification of shareholdings. Set out below is our corporate structure immediately prior to the implementation of the 2006 Restructuring (as at 22 June 2006):



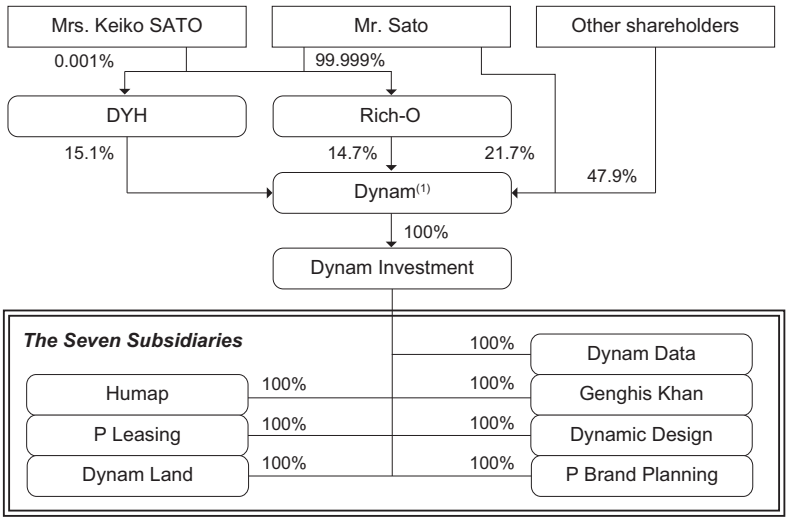
(1) The shareholding percentage of Dynam takes into account the 188,000 outstanding treasury shares in Dynam, representing 0.6% of the entire issued share capital of Dynam.

The 2006 Restructuring comprised the following steps:

(i) **Renaming of DYH** — DYH changed its name from Rich-O Co., Ltd. to its current name of DYNAM Holdings Co., Ltd.* (株式会社ダイナムホールディングス) on 22 June 2006.

(ii) **2006 Company split** — on 1 August 2006, DYH undertook the 2006 Company Split, an incorporation type company split permitted by Japanese law designed to divide the business interests of DYH by making DYH the splitting company and Rich-O, a newly-incorporated company and a Controlling Shareholder, the splitting off company. As a result of the 2006 Company Split, DYH's 29.8% interests in Dynam was split between DYH and Rich-O, with DYH holding 15.1% and Rich-O holding 14.7% immediately thereafter.

Set out below is our corporate structure immediately following the implementation of the 2006 Company Split (as at 1 August 2006):

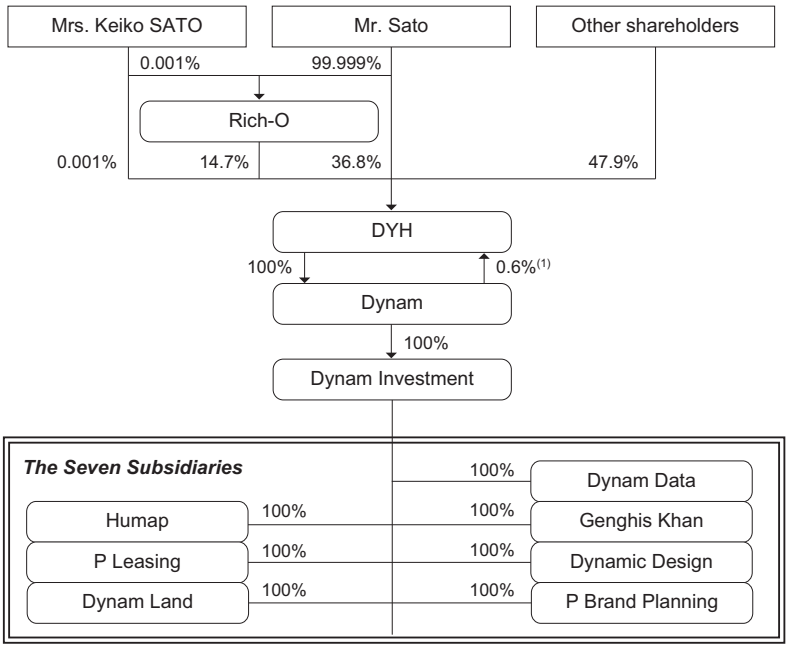


(1) The shareholding percentage of Dynam takes into account the 188,000 outstanding treasury shares in Dynam, representing 0.6% of the entire issued share capital of Dynam.

(iii) **Stock split** — DYH performed a stock split on 23 August 2006 to enlarge its issued share capital from 127,126 DYH Shares to 4,906,890 DYH Shares.

(iv) **First Share Swap** — On 1 October 2006, the then existing shareholders of Dynam transferred their entire interests in Dynam to DYH, in consideration for DYH issuing and allotting new DYH Shares to the then existing Dynam shareholders pro-rata to their then shareholding in Dynam. No new DYH Shares were issued to DYH for its existing interests in Dynam prior to the implementation of the First Share Swap.

Set out below is our corporate structure immediately following the implementation of the First Share Swap (as at 1 October 2006):

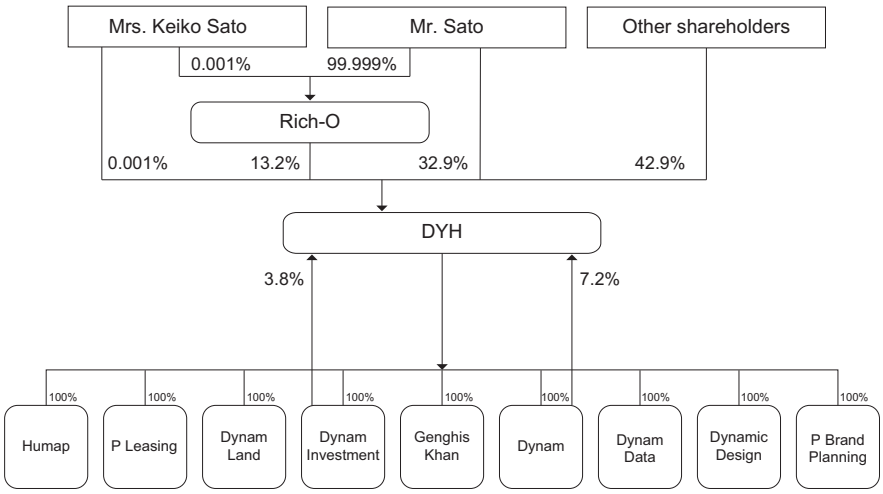


(1) Prior to the First Share Swap, Dynam had 188,000 outstanding treasury shares, which were converted into 188,000 DYH Shares pursuant to the First Share Swap, resulting in a reversed ownership structure.

(v) **Second Share Swap** — On 1 December 2006, the entire issued share capital of Dynam Investment and each of Humap, P Leasing, Dynam Land, Genghis Khan, Dynam Data, P Brand Planning, and Dynamic Design (collectively, the "Seven Subsidiaries") was transferred by Dynam and Dynam Investment, respectively, to DYH, in consideration for DYH further issuing and allotting new DYH Shares to the then existing shareholders of Dynam Investment (i.e. Dynam) and the Seven Subsidiaries (i.e. Dynam Investment), pro-rata to their respective shareholding in Dynam Investment and the Seven Subsidiaries at that time. Following the implementation of the Second Share Swap, (i) Dynam Investment and the Seven Subsidiaries became directly wholly-owned by DYH; and (ii) Dynam and Dynam Investment received new DYH Shares, resulting in a reversed ownership structure.

HISTORY, DEVELOPMENT AND REORGANISATION

Set out below is our corporate structure immediately following the implementation of the Second Share Swap (as at 1 December 2006):

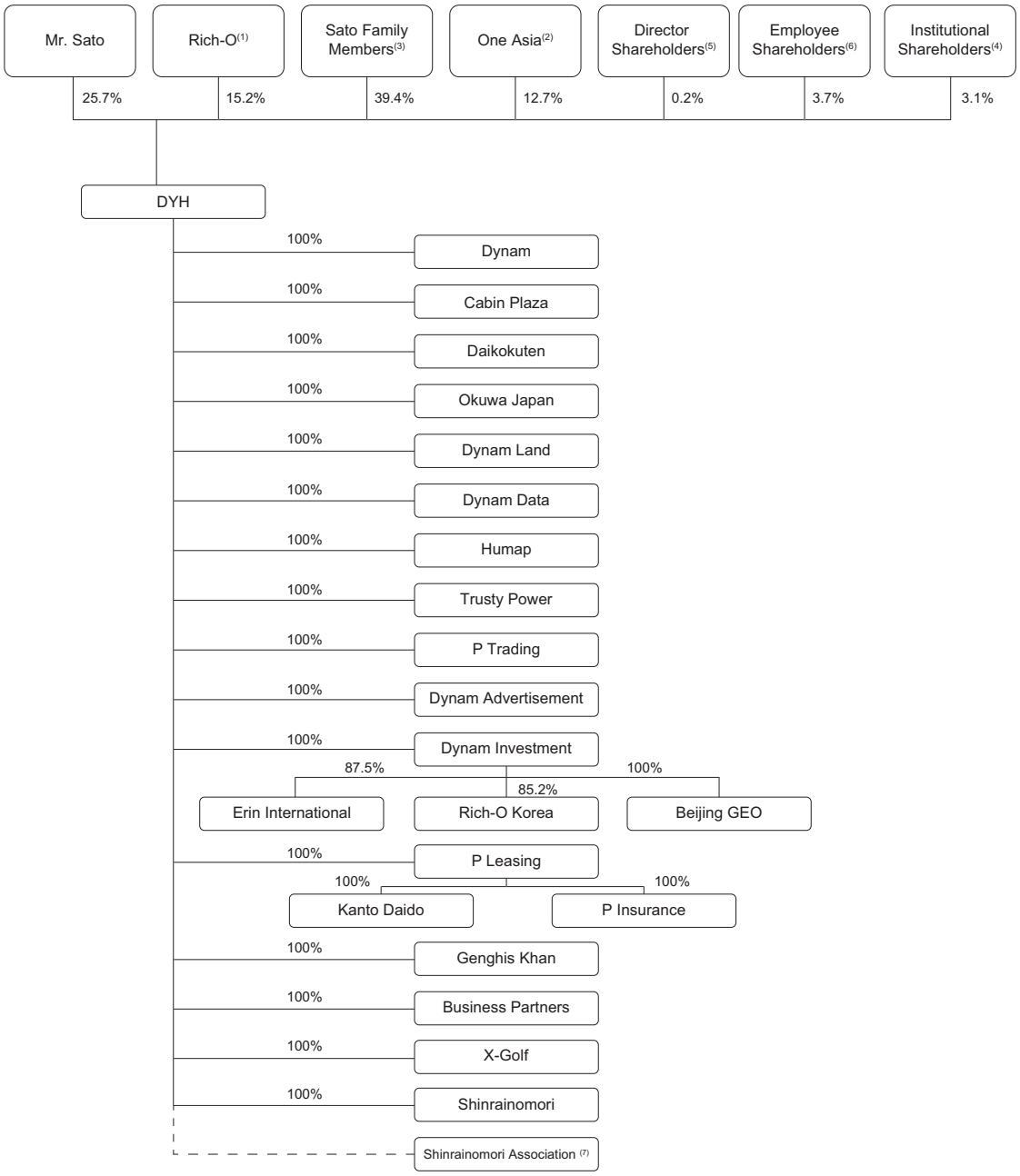


Following the completion of the 2006 Restructuring, DYH became the holding company of our Group, the Remaining DYH Group and the Dissolved Entities.

HISTORY, DEVELOPMENT AND REORGANISATION

Reorganisation

In September 2011, we underwent the Reorganisation in preparation for [●]. whereby the businesses and assets of, and incidental to, our pachinko hall operations, were consolidated into our Group. Set out below is our shareholding and corporate structure immediately prior to the implementation of our Reorganisation (as at 19 September 2011):



(1) Rich-O is 99.9% held and controlled by Mr. Sato.

(2) One Asia is a general incorporated foundation (*ippan zaidan houjin* 一般財団法人) established under the GIA/GIF Law by Mr. Sato. The operation and management of One Asia is independent of our Controlling Shareholders and our Controlling Shareholders have no discretion in exercising One Asia's voting rights in our Company. One Asia,

being a substantial Shareholder of our Company, is a connected person of our Company. See "Relationship with Controlling Shareholders — Overview — One Asia" for further details on the relationship between One Asia and our Controlling Shareholders.

(3) The Sato Family members include Mrs. Yaeko NISHIWAKI (sister of Mr. Sato), Mr. Masahiro SATO (brother of Mr. Sato), Mr. Shigehiro SATO (brother of Mr. Sato), Mr. Kohei SATO (brother of Mr. Sato), Mr. Kiyotaka SATO (uncle of Mr. Sato), and Mrs. Keiko SATO (wife of Mr. Sato), each being a family member of, and an associate of, Mr. Sato.

(4) Our Institutional Shareholders consist of 12 corporate entities and the SSOP. They are Independent Third Parties in respect of our Group and of each other.

(5) Our Director Shareholders consist of Mr. Ushijima, Mr. Horiba, Mr. Takano and Mr. Yoshida, each being a Director of our Company and a connected person to our Company and our Controlling Shareholders.

(6) Our Employee Shareholders are the ESOP and 38 former and current employees of our Group, each being an Independent Third Party to our Group and our Controlling Shareholders.

(7) Shinrainomori Association is a general incorporated association *(ippan shadan houjin* 一般社団法人) organised under the GIA/GIF Law in Japan which does not involve the concept of shareholding and equity interests. The entire voting rights in Shinrainomori Association are controlled by Dynam, Cabin Plaza, Daikokuten and Okuwa Japan, each being a wholly-owned subsidiary of DYH, which also has the power to appoint all of its directors.

Our Reorganisation comprised the following major steps:

(i) **The Company Split** — the Company Split, which was an incorporation-type company split permitted under Japanese law the primary purpose of which is to split the subsidiaries of DYH and their respective businesses between DYH (as the splitting company) and our Company (as the split-off company), was effected as follows:

  (a) **incorporation of our Company** — our Company was incorporated under the Companies Act as a stock company *(kabushiki-gaisha* 株式会社) on 20 September 2011 with limited liability to serve as the holding company of our Group;

  (b) **transfer of our Shares to DYH Shareholders** — DYH declared and distributed a dividend in specie by way of distributing 31,542,518 new Shares, representing our entire issued share capital, to the DYH Shareholders. Each DYH Shareholder received the same number of Shares as the number of DYH Shares they held as at 20 September 2011; and

  (c) **transfer of interests in our subsidiaries** — DYH transferred all assets, rights and interests relating to Dynam, Cabin Plaza, Daikokuten, Okuwa Japan, Dynam Land, Dynam Data, P Trading and Dynam Advertisement to our Company in consideration for our Company issuing and allotting new Shares to the then existing DYH Shareholders in the manner described in (b) above. Each of these companies became directly-wholly owned by our Company.

(ii) **Transfer of interests in Kanto Daido** — On 21 November 2011, P Trading and P Leasing entered into an equity transfer agreement, pursuant to which P Leasing agreed to, on 1 December 2011, transfer the entire issued share capital in Kanto Daido to P Trading in consideration for ¥49 million, equivalent to the net asset value of Kanto Daido as at 30 September 2011. Kanto Daido became indirectly wholly-owned by our Company through P Trading.

(iii) **Transfer of interests in Shinrainomori** — On 21 November 2011, our Company and DYH entered into an equity transfer agreement, pursuant to which DYH agreed to, on 1 December 2011, transfer the entire issued share capital in Shinrainomori to our Company in consideration for ¥9 million, equivalent to the net asset value of Shinrainomori as at 30 September 2011. Shinrainomori became directly wholly-owned by our Company.

(iv) **Termination of the secondment of the Relevant Trusty Power Secondees** — Prior to the Reorganisation, Dynam seconded 50 employees (the "Relevant Trusty Power Secondees") to Trusty Power to provide human resources recruitment, job placement and employee training services to members of our Group. On 15 November 2011, Trusty Power terminated the secondment arrangements with Dynam and the Relevant Trusty Power Secondees returned to Dynam and continued to provide these services to our Group. Thereafter, there is no business relationship between Trusty Power and our Group.

(v) **Change of control in Shinrainomori Association** — As part of the Company Split, DYH transferred its entire interests in Dynam, Cabin Plaza, Daikokuten and Okuwa Japan, which are entitled to the entire voting rights in Shinrainomori Association, to our Company. As a result, control over Shinrainomori Association shifted from DYH to our Company as our Company is entitled to exercise all voting rights in Shinrainomori Association and appoint all its directors through these companies.

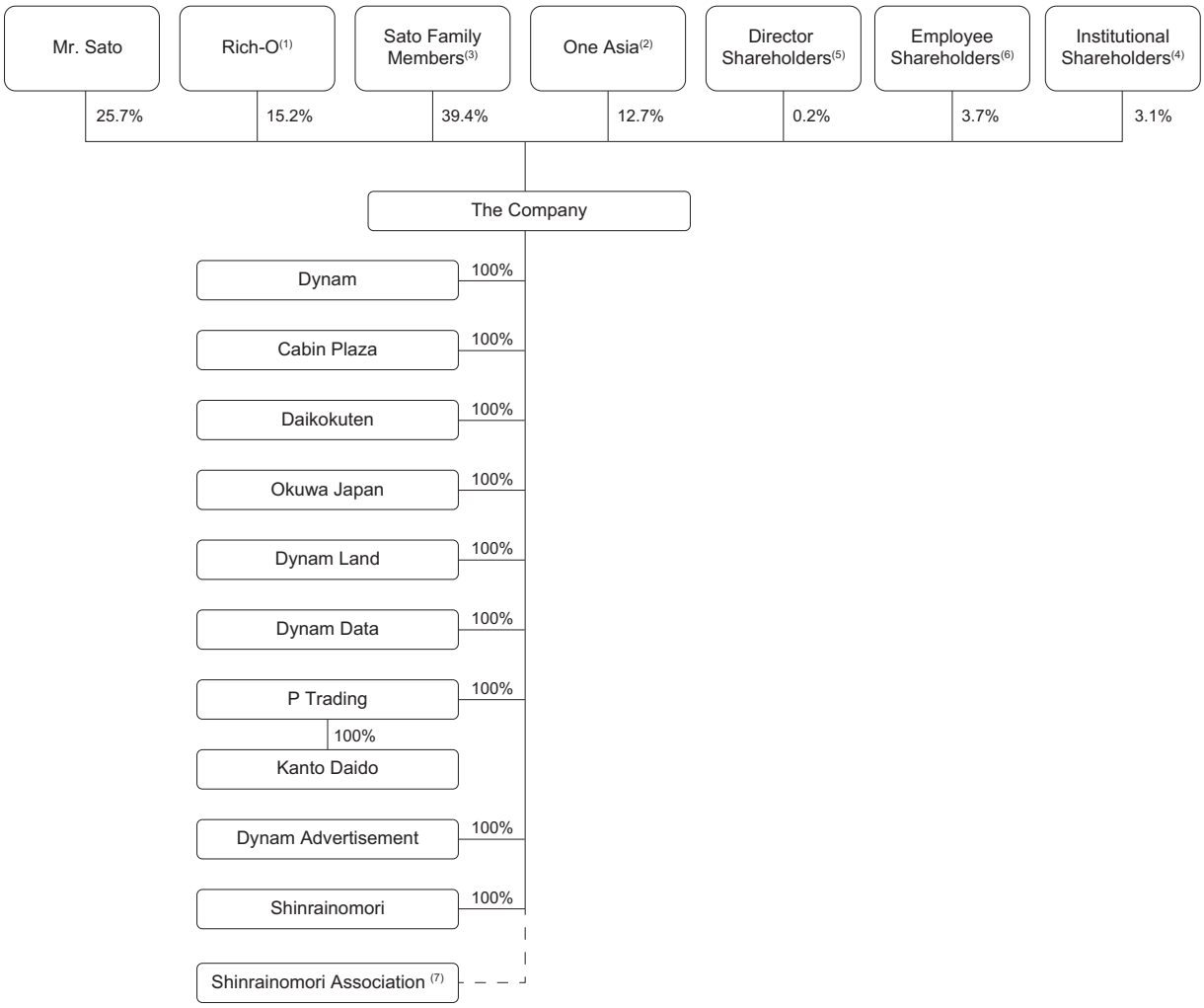
(vi) **Shareholding adjustments** — our Group performed the following shareholding adjustment to rationalise our shareholding structure:

(a) On 9 September 2011, Dynam transferred its entire interests in DYH (as a reversed ownership structure resulted from the 2006 Restructuring) to DYH by way of dividend payments at book value of approximately ¥4.8 billion. Hence, Dynam ceased to be a DYH Shareholder.

(b) On 15 September 2011, DYH cancelled all outstanding treasury DYH Shares, being 4,821,236 DYH Shares. Hence, there is no outstanding treasury Share in our share capital as at the date of this document.

HISTORY, DEVELOPMENT AND REORGANISATION

Our Reorganisation was completed on 1 December 2011. Set out below is our shareholding and corporate structure immediately following the completion of our Reorganisation:



(1) Rich-O is 99.9% held and controlled by Mr. Sato.

(2) One Asia is a general incorporated foundation (*ippan zaidan houjin* 一般財団法人) established under the GIA/GIF Law by Mr. Sato. The operation and management of One Asia is independent of our Controlling Shareholders and our Controlling Shareholders have no discretion in exercising One Asia's voting rights in our Company. One Asia, being a substantial Shareholder of our Company, is a connected person of our Company. See "Relationship with Controlling Shareholders — Overview — One Asia" for further details on One Asia's relationship with our Controlling Shareholders.

(3) The Sato Family members include Mrs. Yaeko NISHIWAKI (sister of Mr. Sato), Mr. Masahiro SATO (brother of Mr. Sato), Mr. Shigehiro SATO (brother of Mr. Sato), Mr. Kohei SATO (brother of Mr. SATO), Mr. Kiyotaka SATO (uncle of Mr. Sato), and Mrs. Keiko SATO (wife of Mr. Sato), each being a family member of, and an associate of, Mr. Sato.

(4) Our Institutional Shareholders consist of the SSOP and 12 corporate entities. They are Independent Third Parties of our Group and of each other.

(5) Our Director Shareholders consist of Mr. Ushijima, Mr. Horiba, Mr. Takano and Mr. Yoshida, each being a Director of our Company and a connected person to our Company and our Controlling Shareholders.

(6) Our Employee Shareholders are the ESOP and 38 former and current employees of our Group, each being an Independent Third Party to our Group and our Controlling Shareholders.

(7) Shinrainomori Association is a general incorporated association *(ippan shadan houjin* 一般社団法人) organised under the GIA/GIF Law in Japan which does not involve the concept of shareholding and equity interests. The entire voting rights in Shinrainomori Association are controlled by Dynam, Cabin Plaza, Daikokuten and Okuwa Japan, each being a wholly-owned subsidiary of our Company, which also has the power to appoint all of its directors.

Following our Reorganisation, certain subsidiaries of DYH were not consolidated into our Company and do not form part of our Group. These companies, which remained as wholly-owned subsidiaries of DYH, form the Remaining DYH Group. Our Directors are of the view that the Remaining DYH Group does not compete, and is not likely to compete, either directly or indirectly, with our Group. See "Relationship with our Controlling Shareholders" in this document below for details of the Remaining DYH Group's operations.

Our Japan Legal Adviser confirms that our Reorganisation complies with all relevant laws, rules, regulations and licence restrictions (including the obtaining of all necessary approvals).

Post-Reorganisation corporate development

Sub-division of the Shares

Pursuant to the resolutions of our Board of Directors dated 5 June 2012, our Directors approved the sub-division of every issued Share of nil par value in our share capital into 20 Shares of nil par value, such that the issued share capital of our Company increased from 31,542,518 Shares to 630,850,360 Shares. The sub-division took effect on 21 June 2012.

Convertible Bonds

On 22 November 2011, our Company issued the Convertible Bonds to certain Japanese corporations engaged in the manufacture and sales of pachinko and pachislot machines, as well as other related ancillary machines, each being an Independent Third Party to each other, our Group and their respective associates. The Convertible Bonds had a principal amount of US$65 million.

On 1 March 2012, our Company issued notice to each of the CB Holders to fully redeem the Convertible Bonds at a price equivalent to the principal amounts together with interests incurred thereon. The decision to redeem the Convertible Bonds came after a review of our working capital which, in the opinion of the Directors, is in a position to support our business needs. Following such redemption, all of the CB Holders are no longer entitled to any form of securities in our Company.

OUR SHAREHOLDING STRUCTURE

Overview

The shareholdings of our Group have experienced a number of changes over the years, as a result of which, our Company is held (i) as to 25.7% beneficially by Mr. Sato, our executive Director, chairman of our Board and Chief Executive Officer; (ii) as to 15.2% beneficially by Rich-O, a company controlled by Mr. Sato; (iii) as to 12.7% beneficially by One Asia, a non-profit-generating general incorporated foundation (*ippan zaidan houjin* 一般財団法人) acting independently of our Controlling Shareholders; (iv) as to 39.4% beneficially by the Sato Family Members in aggregate, each being a family member and an associate of Mr. Sato; (v) as to 0.2% by four Director Shareholders; (vi) as to 3.7% by the Employee Shareholders, comprising the ESOP and 38 current and former employees in aggregate; and (vii) as to 3.1% beneficially by the Institutional Shareholders, comprising the SSOP and 12 corporate entities, each being an Independent Third Party in respect of our Group and each other. Based on the above, each of

HISTORY, DEVELOPMENT AND REORGANISATION

Mr. Sato, Rich-O, and each of the Sato Family Members is a Controlling Shareholder, controlling in aggregate 80.3% of the voting rights in our Company. The following table summarises the shareholding changes in DYH, the holding company of our Group prior to the Reorganisation, and our Company during the Relevant Period and thereafter up to the Latest Practicable Date:

	Number of shares (approximate percentage (%) of shareholding)[1]					
	As at 1 April 2008 (in DYH)	As at 31 March 2009 (in DYH)	As at 31 March 2010 (in DYH)	As at 31 March 2011 (in DYH)	As at 31 March 2012 (in the Company)	As at the Latest Practicable Date (in the Company)
Mr. Sato	12,016,128	12,016,128	8,126,128	8,126,128	8,126,128	162,522,560
	(38.2%)	(37.9%)	(25.7%)	(25.8%)	(25.7%)	(25.7%)
Rich-O	4,790,500	4,790,500	4,790,500	4,790,500	4,790,500	95,810,000
	(15.2%)	(15.2%)	(15.2%)	(15.2%)	(15.2%)	(15.2%)
Sato Family Members	12,416,828	12,416,828	12,416,828	12,416,828	12,416,828	248,336,560
	(39.5%)	(39.3%)	(39.4%)	(39.5%)	(39.4%)	(39.4%)
Director Shareholders	14,000	19,000	46,000	50,500	54,900	1,098,000
	(0.1%)	(0.1%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)
Employee Shareholders	1,061,662	1,069,762	1,150,162	1,162,962	1,175,562	23,511,240
	(3.3%)	(3.3%)	(3.6%)	(3.7%)	(3.7%)	(3.7%)
Institutional Shareholders	1,146,000	1,315,100	1,011,200	927,700	978,600	19,572,000
	(3.7%)	(4.2%)	(3.2%)	(2.9%)	(3.1%)	(3.1%)
One Asia	—	—	4,000,000	4,000,000	4,000,000	80,000,000
	—	—	(12.7%)	(12.7%)	(12.7%)	(12.7%)
Total	31,445,118	31,627,318	31,540,818	31,474,618	31,542,518	630,850,360
	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)

(1) The calculation of shareholding percentage takes no account of the outstanding DYH Shares, which amounted to 2,194,520 DYH Shares at all times during the Relevant Period (until cancelled on 15 September 2011), and the DYH Shares held by Dynam, our wholly-owned subsidiary, which amounted to 2,628,416 DYH Shares at all times during the Relevant Period (until cancelled on 9 September 2011).

As demonstrated above, our Controlling Shareholders, namely Mr. Sato, Rich-O and the Sato Family Members, have historically been interested in over 80% of the entire issued share capital of DYH (prior to the implementation of our Reorganisation) and our Company (following the implementation of our Reorganisation) at all times during the Relevant Period. Hence, our shareholding control has remained stable through the Relevant Period.

We set out below a summary of our five groups of Shareholders:

Group 1: Controlling Shareholders

Immediately following the completion of our Reorganisation, our Company is owned as to approximately 25.7%, 15.2%, and 39.4% by each of Mr. Sato, Rich-O, and the Sato Family Members, representing in aggregate approximately 80.3% of our entire issued share capital. Each of Mr. Sato, Rich-O, and the Sato Family Members is connected to, and an associate of, each other, and is therefore a Controlling Shareholder of our Company.

Our Controlling Shareholders comprise the following individuals and corporations:

Name	Relationship with Mr. Sato	Number of Shares held as at the Latest Practicable Date	Approximate percentage of shareholding as at the Latest Practicable Date
Mr. Sato	N/A	162,522,560	25.7%
Rich-O	99.9% owned and controlled by Mr. Sato	95,810,000	15.2%
Mrs. Yaeko NISHIWAKI	Sister and associate of Mr. Sato	62,396,760	9.9%
Mr. Masahiro SATO	Brother and associate of Mr. Sato	55,259,680	8.8%
Mr. Shigehiro SATO	Brother and associate of Mr. Sato	55,139,680	8.7%
Mr. Kohei SATO	Brother and associate of Mr. Sato	55,139,680	8.7%
Mr. Kiyotaka SATO	Uncle and associate of Mr. Sato	20,400,000	3.3%
Mrs. Keiko SATO	Spouse and associate of Mr. Sato	760	0.0001%

Group 2: One Asia

One Asia is a general incorporated foundation (*ippan zaidan houjin* 一般財団法人) established under the GIA/GIF Law by Mr. Sato on 21 December 2009 with a view to promote harmony and cooperation among Asian communities. One Asia is interested in the Shares in our Company for equity holding purposes. Such equity interests are an important ancillary function for One Asia that forms its main source of income and provides stable liquidity in achieving its primary objectives by sponsoring and undertaking Asian community projects, which include making grants to universities and research bodies engaged in Asian studies, supporting non-profit organisations in raising cultural awareness, and awarding scholarships to Asian students, according to the information provided by One Asia. The operation and management of One Asia is independent of our Controlling Shareholders and our Controlling Shareholders have no influence over the exercise of One Asia's voting rights in our Company. Hence, One Asia is not a Controlling Shareholder. For further details of One Asia's relationship with our Controlling Shareholders, See "Relationship with Controlling Shareholders — Overview — One Asia" in this document.

Group 3: Director Shareholders

Our Director Shareholders comprise the following four individuals:

Name	Position within our Company	Number of Shares held as at the Latest Practicable Date	Approximate percentage of shareholding as at the Latest Practicable Date
Mr. Ushijima	Non-executive Director	838,000	0.1%
Mr. Horiba	Independent non-executive Director	100,000	0.02%
Mr. Takano	Independent non-executive Director	20,000	0.003%
Mr. Yoshida	Independent non-executive Director	140,000	0.02%

Group 4: Employee Shareholders

Our Employee Shareholders include the ESOP, an entitlement rights scheme aimed at providing for deferred compensation to employees as part of their employment package, and 38 current and former employees of our Group. Each of these Employee Shareholders is an Independent Third Party to each other, our Group and our Controlling Shareholders.

As at the Latest Practicable Date, our Employee Shareholders were interested in 23,511,240 Shares, representing approximately 3.7% of our entire issued share capital.

ESOP

On 2 October 1988, Dynam established an association* (*minpoujou no kumiai* 民法上の組合), known as DYNAM Employees Stock Ownership Plan, or the ESOP, under the Civil Code, as an incentive to the employees of our Group, aligning the interests of our employees to the interests of our Shareholders to support our future growth. The ESOP is a discretionary trust in nature and is governed by the SOP Guidance issued by the Japanese Securities Dealers Association. The ESOP is administered by a board of directors, which is assisted by Daiwa Securities Capital Market Co., Ltd., an Independent Third Party, as the transfer agent of ESOP, pursuant to a transfer agent agreement dated 1 April 2006. The ESOP was a DYH Shareholder. As part of our Reorganisation, DYH effected a distribution in specie such that the original DYH Shareholders became the Shareholders of our Company. Upon the completion of our Reorganisation, the ESOP cancelled its entire interests in DYH.

Membership of the ESOP is confined to the current employees of our Group only. All members of the ESOP are required to make a monthly capital contribution ranging from ¥1,000 to ¥30,000, deducted directly from their salary. Extraordinary capital contribution will be made when our Company performs a rights issue or when decided by the board of directors. In addition, members may elect to make a special capital contribution out of their bonus payment twice a year. Pro-rata to the aggregate amount of their monthly, special and extraordinary capital contribution, members are granted a certain number of entitlement rights. These rights enable them to benefit from the appreciation in the value of the Shares in our Company. The entitlement rights confer solely a claim to payment in cash, not a right to claim to purchase Shares in our Company. None of the entitlement rights granted by the ESOP are convertible into Shares or any other form of securities in our Company.

As at the Latest Practicable Date, the ESOP had granted 19,065,240 entitlement rights, corresponding to 19,065,240 Shares in our Company, to 617 current employees of our Group (collectively, the "ESOP Grantees", each an "ESOP Grantee"). Each of the ESOP Grantees obtaining an entitlement would be entitled to benefits associated with one Share in our Company. The maximum number of entitlement rights that may be granted by the ESOP is the number of Shares it holds in our Company.

The Shares held by the ESOP are subscribed by making use of the monthly, extraordinary and special capital contribution from the ESOP Grantees. Our Directors have confirmed that the consideration for such Shares is calculated on an arm's length basis with reference to the net asset value of our Company (following the completion of our Reorganisation) and DYH (prior to the Reorganisation) at the time of subscription. Dividends associated with such Shares are not distributed to the ESOP Grantees but kept by the ESOP as capital reserve to invest in additional Shares in our Company.

Entitlement rights granted by the ESOP may only be exercised when an ESOP Grantee decides to cancel its membership with the ESOP. Upon exercise of the entitlement rights, an ESOP Grantee may claim a payment which is the aggregate of the exercise values of the entitlement rights and the aggregate amount of monthly and extraordinary capital contributions attributable to the relevant ESOP Grantee. There is no fixed exercise value of the entitlement rights, which is determined by the board of directors of the ESOP from time to time, and the rights to exercise the entitlement rights do not have an expiry date.

The Shares held by the ESOP rank *pari passu* in all respects with the existing fully paid Shares in issue. Hence, there are no specific rights in favour of the ESOP Grantees attached to the Shares held by the ESOP. Anticipated future claims from the ESOP are covered by provisions. The ESOP exercises its voting rights in our Company at the discretion of the board of directors of the ESOP, which consult with the ESOP Grantees from time to time. None of the members of the board of directors of the ESOP is a connected person of our Company.

During the Relevant Period, the ESOP developed as follows:

	As at 31 March			As at the Latest Practicable Date
	2010 (in DYH)	2011 (in DYH)	2012 (in our Company)	(in our Company)
Number of entitlements rights	953,362	942,962	953,262	19,065,240
Newly granted entitlements rights	62,100	40,200	11,900	—
Exercised entitlements rights	900	50,600	1,600	—

On 21 June 2012, our Company sub-divided each Share in our issued share capital into 20 Shares. Hence, each entitlement right held by the ESOP Grantees (representing one Share) was sub-divided into 20 entitlement rights (representing 20 Shares) on the same date.

Group 5: Institutional Shareholders

Our Institutional Shareholders include the SSOP, an entitlement rights scheme targeted at our long-term suppliers, and 12 corporate entities that invested in our Group. Each of these Institutional Shareholders is an Independent Third Party to each other, our Group and our Controlling Shareholders.

The majority of our Institutional Shareholders are our suppliers or bankers in which we also hold interests. This cross shareholding structure, according to our Directors' understanding, is a common practice in Japan to engender amicable relationships with business partners. We intend to maintain our network of cross shareholding with our Institutional Shareholders to maintain our ties with these long term business partners. Our Directors have confirmed that none of our Institutional Shareholders received interests in our Company as security or financial guarantee. All of our Institutional Shareholders obtained their respective Shares in our Company in consideration for an amount that was calculated on an arm's length basis.

Our Directors further confirm that none of our Institutional Shareholders were interested in more than 5% of our entire issued share capital, being the maximum amount of share capital a financial institution can hold in its clients under the relevant laws and regulations in Japan.

Our Institutional Shareholders include the following corporate entities:

Name	Business activities	Business relationship with our Group (if any)	Number of Shares held as at the Latest Practicable Date	Approximate percentage of shareholding as at the Latest Practicable Date
Mizuho Bank Ltd.* (株式会社みずほ銀行)	Financial institution	As at the Latest Practicable Date, our outstanding amount due to this Institutional Shareholder amounted to approximately ¥10 billion	5,000,000	0.9%
Sumitomo Mitsui Banking Corporation* (株式会社三井住友銀行)	Financial institution	As at the Latest Practicable Date, our outstanding amount due to this Institutional Shareholder amounted to approximately ¥7 billion	2,600,000	0.5%
Nipponkoa Insurance Co., Ltd.* (日本興亜損害保険株式会社)	Insurance company	Our Group maintained certain insurance policies with this Institutional Shareholder	1,200,000	0.3%
Resona Bank Limited* (株式会社りそな銀行)	Financial institution	As at the Latest Practicable Date, our outstanding amount due to this Institutional Shareholder amounted to approximately ¥2 billion	800,000	0.1%
Sohgo Security Services Co., Ltd.* (綜合警備保障株式会社)	Provider of security services	This Institutional Shareholder installed security alarm system at our office premises, pachinko halls and distribution centres	800,000	0.1%

Name	Business activities	Business relationship with our Group (if any)	Number of Shares held as at the Latest Practicable Date	Approximate percentage of shareholding as at the Latest Practicable Date
Chuo Mitsui Trust and Banking Company Limited* (中央三井信託銀行株式会社)	Financial institution	As at the Latest Practicable Date, our outstanding amount due to this Institutional Shareholder amounted to approximately ¥950 million	800,000	0.1%
Century Tokyo Leasing Corporation* (東京センチュリーリース株式会社)	Leasing of machinery and equipment	As at the Latest Practicable Date, our Group had ceased all business relationship with this Institutional Shareholder	800,000	0.1%
Fuyo General Lease Co., Ltd.* (芙蓉総合リース株式会社)	Leasing of machinery and equipment	As at the Latest Practicable Date, our Group had ceased all business relationship with this Institutional Shareholder	800,000	0.1%
Weru Investment Co., Ltd.* (ウエルインベストメント株式会社)	Provision of loans to start-up companies in need of venture capital	As at the Latest Practicable Date, our Group had no business relationship with this Institutional Shareholder	200,000	0.05%
Niraku Corporation* (株式会社ニラク)	Operator of pachinko halls	As at the Latest Practicable Date, our Group had no business relationship with this Institutional Shareholder	1,000,000	0.1%
Try and Trust Co., Ltd.* (株式会社TRY & TRUST)	Operator of pachinko halls	As at the Latest Practicable Date, our Group had no business relationship with this Institutional Shareholder	200,000	0.05%
RD Tek Co., Ltd. (株式会社アールディテック)	Developer of software and facilities	This Institutional Shareholder develops software and facilitates for virtual golfing facilities for X-Golf, a wholly-owned subsidiary of DYH and a member of the Remaining DYH Group	600,000	0.1%

SSOP

On 21 May 2008, DYH established an association* (*minpoujou no kumiai* 民法上の組合), known as DYNAM Supplier Stock Ownership Plan, or the SSOP, under the Civil Code, for the purposes of assisting the game machines and prize suppliers of our Group to benefit from any appreciation in the value of our Shares, consistent with our strategy to maintain and fortify our established relationship with our suppliers. The SSOP is a discretionary trust and is governed by the SOP Guidance issued by Japanese Securities Dealers Association. The SSOP is administered by a board of directors, which is assisted by Mizuho Investor Securities Co., Ltd., an Independent Third Party, as the transfer agent of the SSOP, pursuant to a transfer agent agreement dated 9 January 2009. The SSOP was a DYH Shareholder. As part of our Reorganisation, DYH effected a distribution in specie such that the original DYH Shareholders became the Shareholders of our Company. Upon the completion of our Reorganisation, the SSOP cancelled its entire interests in DYH.

Membership of the SSOP is open to suppliers of our Group companies. All members of the SSOP are required to make a monthly capital contribution ranging from ¥50,000 to ¥990,000. Aside from the monthly capital contribution, members of the SSOP are required to pay for an annual administration fee of ¥3,000. Pro-rata to the amount of their monthly capital contribution, members are granted with a certain number of entitlement rights. These entitlement rights enable them to benefit from the appreciation in the value of the Shares in our Company. The entitlement rights confer solely a claim to payment in cash, not a right to claim to purchase Shares in our Company. None of the entitlement rights granted by the SSOP are convertible into Shares or any other form of securities in our Company. As at the Latest Practicable Date, the SSOP had granted 4,772,000 entitlement rights, corresponding to 4,772,000 Shares in our Company, to 71 game machine and prize suppliers of our Group (collectively, the "SSOP Grantees" and each a "SSOP Grantee").

The Shares held by the SSOP are subscribed by making use of the monthly capital contributions of the SSOP Grantees. Our Directors have confirmed that the consideration for such Shares is calculated on an arm's length basis with reference to the net asset value of our Company (following the completion of our Reorganisation) and DYH (prior to the Reorganisation) at the time of subscription. Dividends associated with such Shares are not distributed to the SSOP Grantees but kept by the SSOP as capital reserve to invest in additional Shares in our Company.

Entitlement rights granted by the SSOP may only be exercised when a member decides to cancel its membership with the SSOP. Upon exercise of the entitlement rights, an SSOP Grantee may claim a cash payment which is the aggregate exercise value of the entitlement rights and the aggregate amount of monthly contribution attributable to the relevant SSOP Grantee. There is no fixed exercise value of the entitlement rights, which is determined by the board of directors of the SSOP from time to time, and the rights to exercise the entitlement rights do not have a specified expiry date.

Anticipated future claims from the SSOP are covered by provisions. The Shares held by the SSOP rank *pari passu* in all respects with the existing fully paid Shares in issue. Hence, there is no specific right in favour of the SSOP Grantees attached to the Shares held by the SSOP. The SSOP exercises its voting rights in our Company at the sole discretion of the board of directors of the SSOP, who consult with the SSOP Grantees on a regular basis. None of the members of the board of directors of the SSOP is a connected person of our Company.

As at the Latest Practicable Date, no SSOP Grantee had exercised their entitlement rights granted by the SSOP. During the Relevant Period, the SSOP developed as follow:

	As at 31 March			As at the Latest Practicable Date
	2010 (in DYH)	2011 (in DYH)	2012 (in our Company)	(in our Company)
Number of entitlements rights[(1)]	161,200	217,700	238,600	4,772,000
Newly granted entitlements rights	72,100	56,500	20,900	—
Exercised entitlements rights	—	—	—	—

(1) On 21 June 2012, our Company sub-divided each Share in our share capital into 20 Shares. Hence, each entitlement right held by the SSOP Grantees (representing one Share) was sub-divided into 20 entitlement rights (representing 20 Shares) on the same date.

BUSINESS

OVERVIEW

We are the second largest pachinko hall operator in Japan based on the total value of pachinko balls and pachislot tokens rented in 2010 and the largest in terms of number of halls according to Yano Research. We have 45 years of experience in the pachinko industry, having built our pachinko operations from two halls in one prefecture to 355 halls in 46 out of 47 prefectures in Japan as at 31 March 2012. We have expanded our operations by building new halls as well as through strategic acquisitions, and plan to continue to capitalise on expansion opportunities as and when they arise.

Pachinko is one of the most popular forms of entertainment in Japan, comprising a ¥19.4 trillion industry that accounted for approximately 28.6% of Japan's entertainment market in 2010. Pachinko was first developed as a children's game in the 1920s in Japan, featuring simple designs with bells and flashing lights, and evolved into an adult pastime in the 1930s. After temporary closure during World War II, pachinko halls re-emerged as part of the entertainment industry in Japan in the late 1940s, with significant changes and improvements to the machines in the 1980s.

As at the end of 2010, there were approximately 12,500 pachinko halls in Japan, offering a wide variety of pachinko and pachislot games with various sound and video features. Pachinko is similar to a vertical pinball machine and is played by firing small metal pachinko balls in rapid succession into the playing field of the machine and into pockets which trigger the release of more pachinko balls. Playing costs generally range from 0.5 yen to 4 yen per ball. Pachislot is similar to casino slot machines, and is played by spinning the reels on the machine, then stopping them so that the pictures on each reel match, which triggers the release of pachislot tokens. Playing costs generally range from 5 yen to 20 yen per token. Customers rent pachinko balls and pachislot tokens to play the games, and the balls or tokens won can be either exchanged for prizes or saved for subsequent visits.

Consistent with standard industry practice, we offer both general prizes, which are generally the types of goods sold in convenience stores, such as snacks, drinks and cigarettes, as well as "G-prizes", which are decorative cards with a small embedded piece of gold or silver or coin-shaped pendants of gold or silver. Players who opt to claim G-prizes in exchange for the pachinko balls and pachislot tokens collected may sell their G-prize to an independent prize buyer for cash outside of the pachinko hall.

We have focused on promoting the entertainment, instead of gaming, aspect of pachinko. We operate three types of halls, which offer various mixes of pachinko and pachislot games with different playing costs:

- ***Traditional*** halls feature a greater proportion of high playing cost games, and allow smoking inside the halls. As at 31 March 2012, we operated 176 traditional halls.

- ***Yuttari Kan*** halls offer primarily low playing cost games with a wider variety of general prizes, and generally allow smoking. As at 31 March 2012, we operated 135 *Yuttari Kan* halls.

- ***Shinrai no Mori*** halls also feature primarily low playing cost games with a wider variety of general prizes, and include additional features such as a general prohibition on smoking with designated closed-off smoking areas, and the addition of a "relaxation space" in which customers can socialise. As at 31 March 2012, we operated 44 *Shinrai no Mori* halls.

We were among the first pachinko hall operators to promote the entertainment, instead of gaming, aspect of pachinko when we introduced low playing cost machines to our halls in 2006. We believe that our development of low playing cost pachinko is key to our continued success in the industry, as this strategy has allowed us to reach out to a broader and previously untapped customer base stemming from a growing trend towards playing pachinko for recreation in addition to winning prizes. This strategy also involves planned geographical expansion to continue to target players in rural/suburban areas.

We believe that we have developed an efficient method of managing our large scale of pachinko operations. We utilise a chain-store management strategy whereby the branding, construction, management, and operation of our pachinko halls, and the procurement of machines, are standardised and centralised to enhance operational efficiency. We began to utilise our own "private brand" machines in 2006, carefully developing machine features and specifications based on information collected from our membership and IT systems in order to tailor our machines to customer preferences and market trends. We also conduct machine sourcing and disposal through a network of 13 distribution centres located throughout Japan, allowing us to centralise these activities as well as control the quality and compliance of machines that we purchase. Our distribution system, coupled with our wide geographic reach, also allows us to source machines from within our own network of pachinko halls, reallocating and rotating machines in response to changing trends and customer preferences. Our comprehensive IT systems enable us to monitor and manage various aspects of our daily operations, and allow us to timely analyse information such as the utilisation, payouts and profitability of each machine, and, together with our membership system, the demographics, habits and preferences of our customers at each hall.

Despite difficult global macro-economic conditions, our revenue remained steady during the Relevant Period. Our revenue for the years ended 31 March 2010, 2011 and 2012 was ¥165,461 million, ¥169,637 million and ¥165,078 million (equivalent to approximately HK$15,515 million), respectively.

COMPETITIVE STRENGTHS

We believe that we have a number of key strengths that differentiate our business from that of our competitors, including the following.

We operate a nationwide network, and are able to benefit from economies of scale and an expansive geographic reach.

We are the largest operator of pachinko halls in Japan based on number of halls, according to a report by Yano Research. As at 31 March 2012, we operated 355 pachinko halls. We have been able to leverage this strong market position to realise significant economies of scale in our operations. We have centralised our management, marketing and advertising, and machine and general prize procurement processes as part of our chain-store management strategy in order to enhance operational and cost efficiencies throughout our operations. In particular, our large operating scale enables us to, among others, manage the sourcing and purchasing of new and second-hand machines, procure new machines in larger volumes for a lower cost, and maximise the utilisation of our existing machines by reallocating machines among our pachinko halls in different locations throughout Japan instead of purchasing from third parties. These measures impact our profitability because the acquisition of machines comprises a significant portion of our operating costs.

Our pachinko halls are primarily located in less populated areas, giving us access to a different customer base that encompasses a wider demographic than those located in more densely populated areas. We are also well positioned to benefit from the recent industry trend

towards consolidation, as smaller pachinko hall operators have dropped out of the industry as a result of competition from larger operators, such as us, that have greater financial and other resources and are able to benefit from operational cost efficiencies.

We operate a comprehensive range of pachinko halls covering a broad and diverse customer base.

We operate three types of halls, namely traditional halls, *Yuttari Kan* halls and *Shinrai no Mori* halls, targeting a broad base of customers. We are among the first pachinko hall operators to promote, through our *Yuttari Kan* and *Shinrai no Mori* brands, the entertainment, instead of gaming, aspect of pachinko. We began offering low playing cost pachinko in 2006, and as at 31 March 2012, entertainment-oriented pachinko halls made up over half of our pachinko hall network. In doing so, we have been able to expand to a more demographically diverse customer base to include women, and players from older age groups and regional towns and cities. This has led to an increase in our market share and has provided us with a competitive edge over other pachinko hall operators.

We have implemented an effective management structure and sophisticated information technology systems which enable us to anticipate and respond quickly to regional changes and trends in customer preferences.

We have implemented a bottom-up management structure in which our 19 zone managers are each responsible for a designated geographic zone in Japan, and report directly to our senior management. Because customer preferences and trends can vary widely among different regions, our zone managers' on-site presence in each zone allows us to collect localised market information, enabling us to make timely business decisions which are responsive to changing conditions in each geographical market. We also utilise sophisticated information technology systems which provide us with real-time data with respect to utilisation and performance of each of our pachinko and pachislot machines. Our systems provide various analyses of the data collected, allowing us to closely monitor and analyse information regarding the number and types of players and machines at our pachinko halls, which in turn allows us to make timely and informed business decisions.

We have an experienced and well-qualified management team with a proven track record in operating pachinko halls.

Our management team has significant experience in operating pachinko halls, with an average of approximately 11 years of experience in the pachinko industry in Japan. Mr. Yoji Sato, our Chief Executive Officer, has been with Dynam for approximately 42 years, and serves as an advisor to the Pachinko Chain-store Association ("PCSA"), an industry group formed for the purpose of promoting, improving and standardising the pachinko industry. Mr. Kohei SATO, President and director of Dynam, has been with Dynam for approximately 17 years, and serves as vice-chairman of the PCSA. Our existing management team has been responsible for the innovative development, implementation and operation of our *Yuttari Kan* and *Shinrai no Mori* brand halls.

BUSINESS

BUSINESS STRATEGIES

Building on our key strengths, we seek to maintain our position as an industry leader and further grow our business by implementing the following strategies.

We will continue to promote the entertainment aspect of pachinko while maintaining our three distinct brands in order to further expand and broaden our customer base.

Our unique branding strategy has enabled us to attract a diverse customer base by emphasising the entertainment, rather than gaming, aspect of pachinko. With the introduction of our *Yuttari Kan* and *Shinrai no Mori* brands, we are reinventing the image of pachinko halls and distinguishing our branded pachinko halls as venues in which a broader range of customers, such as women, younger players, and other non-traditional pachinko customers, can play for entertainment and recreation rather than prizes. In line with this focus, we will also continue to concentrate our efforts in promoting our low playing cost games in addition to our traditional high playing cost games, as we believe that the pachinko industry is experiencing a transition towards low playing cost games.

We will continue to strategically expand our pachinko operations.

We have a proven track record in successfully expanding our operations throughout Japan in a careful, cost-conscious and strategic manner and in line with our chain-store operational management strategy. We intend to exploit our competitive strengths to continue to expand our pachinko hall network and add to our leading market position. We plan to build approximately 75 additional pachinko halls over the next three years, primarily entertainment-oriented halls. We believe that many opportunities for pachinko hall expansion continue to exist in Japan, particularly in rural/suburban areas that are characterised by a population of approximately 100,000 within a ten-minute driving radius.

Moreover, we also intend to continue to expand the number of our traditional halls by targeting our competitors' market share of frequent pachinko players, through timely introduction of new and popular pachinko and pachislot games with higher playing costs.

In addition to growing organically, we plan to take advantage of the fragmented nature of the pachinko industry in Japan to acquire additional pachinko halls that complement our existing operations. In doing so, we will also take advantage of the pachinko industry trend of smaller and medium-sized hall operators gradually being pushed out of the market by larger operators. Our growth strategy may also include potential cooperation with gaming operators in other locations throughout Asia.

Based on these strategies, we intend to evaluate and actively pursue expansion opportunities as they may arise. However, we currently do not have any specific acquisition plans or targets, or regions targeted for acquisitions, and have not entered into any definitive agreements with any potential targets.

We will increase our focus on customer satisfaction and goodwill.

As part of our initiative to shift the image of pachinko as a gaming activity to one of entertainment and leisure, we will focus on improving the overall quality of the customer experience in our pachinko halls. This includes introducing more *Yuttari Kan* and *Shinrai no Mori* halls featuring lower playing cost pachinko and pachislot machines, as we believe that many potential players are deterred by the high playing costs involved in pachinko and pachislot. Furthermore, in order to address the concerns of loud noise volumes and smoking inside pachinko halls, our *Shinrai no Mori* halls have controlled, lower noise volumes and are non-

smoking, with separate designated smoking areas. We will also continue to focus on improving the quality of our customer service by providing ongoing personnel training. We believe that this is an important factor in customer loyalty and retention, which we believe will lead to increased market share and improved industry standing.

We will increase our market visibility with far-reaching advertising and promotional efforts.

In conjunction with developing our *Yuttari Kan* and *Shinrai no Mori* brands, we have launched nationwide and regional advertising campaigns to promote our pachinko halls. We will work closely with external advertising agencies to build a corporate franchise image that encompasses our three brands, and have created seven mascots that represent the values and ideals we are promoting. We intend to implement our campaigns through various advertising platforms, such as television and radio commercials, the internet, our website aimed at pachinko players, magazines, newspapers and other printed media, and sponsorship of various television programs that are aimed at our target demographics.

We will continue to utilise our chain-store management strategy to achieve greater cost savings.

Through our chain-store operational and management structure, we will continue to strive for greater cost savings through standardisation in the branding and building type of, as well as the equipment and other supplies purchased for use in, our pachinko halls across the country. The economies of scale resulting from our strategy of volume purchasing has enabled us to realise cost savings in our operations. This has also been the driving force behind our initiative to begin developing and installing our own private brand machines, the production of which we outsource in bulk to manufacturers. The average price of our private brand machines is less than the average market price of national brand machines. We aim to continue to increase the proportion of private brand machines in our pachinko halls to further reduce our operating costs. Furthermore, our zone management structure will continue to be an integral part of our standardisation efforts throughout the country, as it has created operational efficiencies that would be difficult to achieve in a traditional management structure.

We will continue to invest in our information technology system, which plays an important supporting role to our daily pachinko operations and will become increasingly important as we expand our business operations in the future.

In order to improve information sharing among our management team, we plan on adding new functions to our existing database, such as indexing, searching and added-value analysis. This upgrade will allow for faster access and better control over the information stored in our database. We will also implement a centralised data sharing system, which would increase efficiency and promote better communication amongst our various departments, such as finance, operation, prize procurement, game machines sourcing and inventory control. We will further improve upon our current Prize Management System, including moving our systems to a new server in order to maintain better control over our inventories, ensure information accuracy and enhance the efficiency of our procurement processes by centralising information collected from various sources into a single, accessible point.

A continually improving IT system will enhance our marketing and promotional capacities as well. We intend to make our website for pachinko players smart-phone compatible and enrich its content with additions such as photo sharing capabilities and a bulletin board system where users can interact with each other and share their experiences at our pachinko halls and promotional events.

PACHINKO OPERATIONS

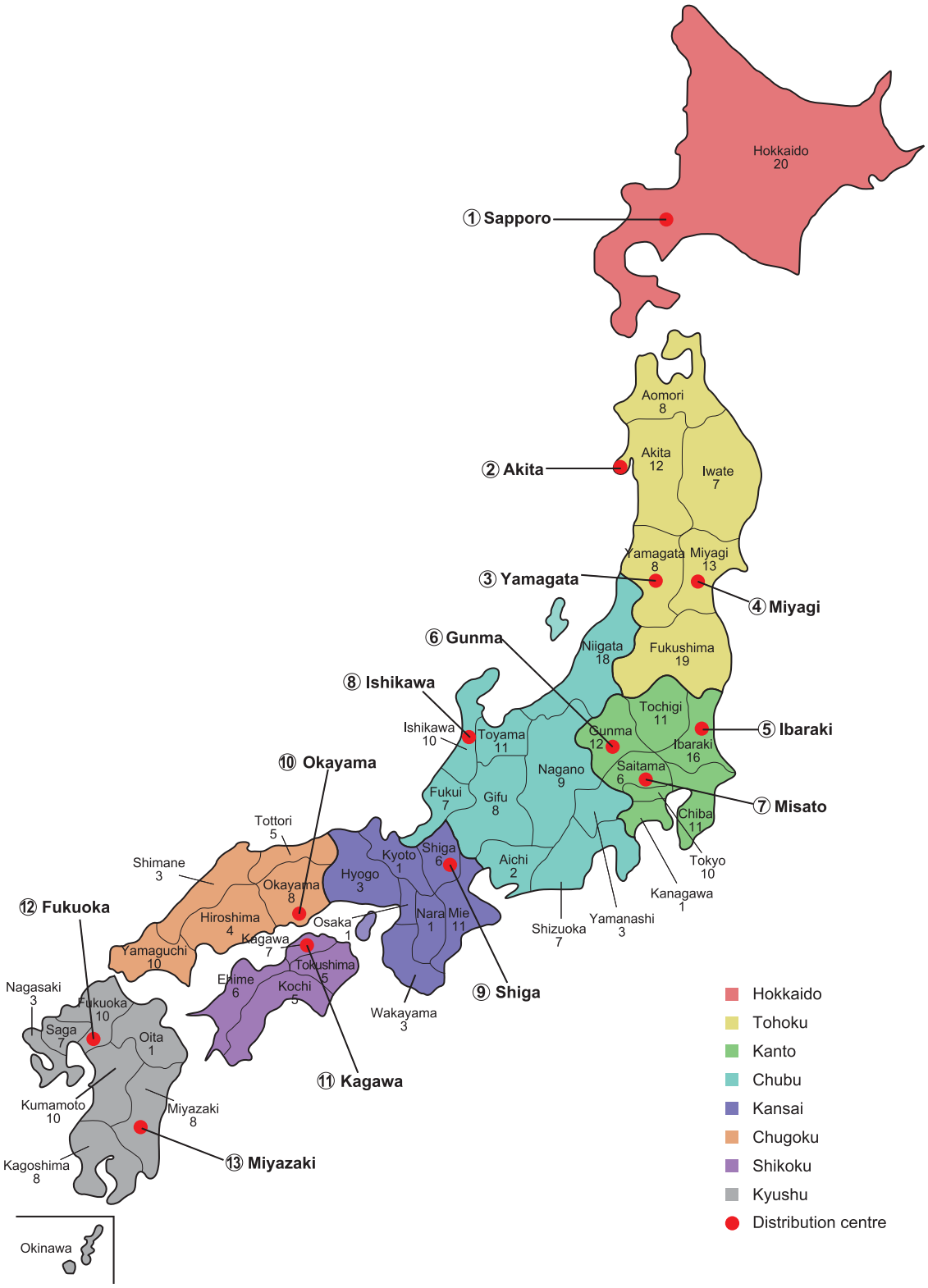
As at the Latest Practicable Date, we operated 355 pachinko halls in 46 out of 47 prefectures throughout Japan. We have achieved growth in the number of our pachinko halls during the Relevant Period. The following table sets forth the number of halls by type as at the dates indicated:

	As at 31 March		
	2010[1]	**2011**[2]	**2012**
Traditional	176	176	176
Yuttari Kan	130	132	135
Shinrai no Mori	25	42	44
Total	**331**	**350**	**355**

(1) Includes six halls operated by Cabin Plaza and Daikokuten.
(2) Includes three halls operated by Okuwa Japan.

BUSINESS

The following map shows the network of our pachinko halls and our distribution centres in each prefecture as at the Latest Practicable Date:



The following table sets forth our revenue for the Relevant Period:

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Gross pay-ins[1]	862,023	859,882	908,309	85,368
Less: Gross payouts[2]	(696,562)	(690,245)	(743,231)	(69,853)
Revenue[3]	165,461	169,637	165,078	15,515

(1) Represents the amount received from pachinko balls and pachislot tokens rented to customers, less unutilised balls and tokens.

(2) Represents the aggregate cost of G-prizes and general prizes exchanged by customers. See "Appendix I — Accountants' Report".

(3) Represents the gross pay-ins, less payouts to customers.

The gaming experience

Our pachinko halls provide a venue for customers to play two types of games: pachinko and pachislot.

The mechanics and method of playing are largely the same for all of our pachinko and pachislot machines. However, we provide pachinko and pachislot games which may be played for different ball or token rental rates. We have pachinko machines with playing costs of 0.5-yen, 1-yen, 1.25-yen, 2-yen, 2.5-yen and 4-yen and pachislot machines with playing costs of 5-yen, 6.25-yen, 10-yen and 20-yen in our halls. For example, for ¥1,000, a player may obtain 250 4-yen pachinko balls to play or 200 5-yen pachislot tokens to play.

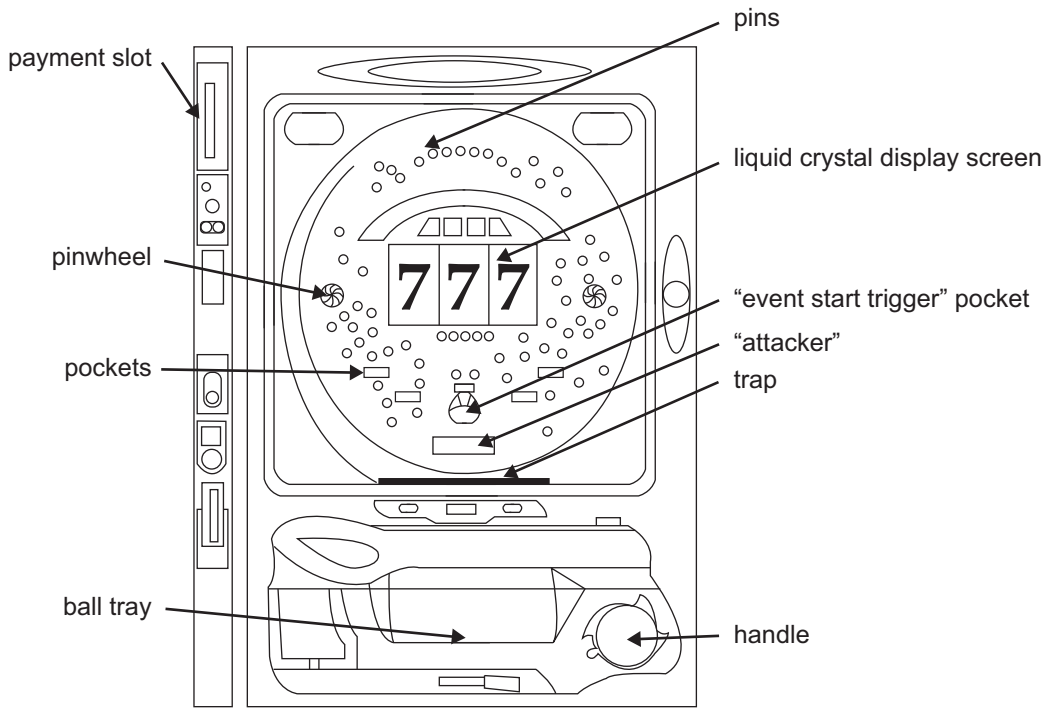
Customers may use cash to obtain balls or tokens; alternatively, customers may also purchase pre-paid IC cards and use them to obtain balls or tokens. Consistent with industry practice, the IC card is only valid on the day of purchase, and cash stored in the IC card is only allowed to be refunded on the same day. We, at the request of our customers, generally will allow our customers to use the remaining cash value in the IC card to exchange for balls or tokens once within a 20-day period after the purchase of the IC card. All cash stored on the pre-paid IC card will be forfeited 20 days after the purchase. For more information on unused amounts on pre-paid IC cards, see "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Description of Components of Results of Operations — Gross pay-ins".

The following table sets forth the number of our pachinko and pachislot machines as at the dates indicated:

	As at 31 March					
	2010		2011		2012	
	(number of machines, except for percentages)					
		%		%		%
Pachinko	112,627	77.5	117,493	76.2	118,324	75.3
Pachislot	32,670	22.5	36,638	23.8	38,862	24.7
Total	**145,297**	**100.0**	**154,131**	**100.0**	**157,186**	**100.0**

BUSINESS

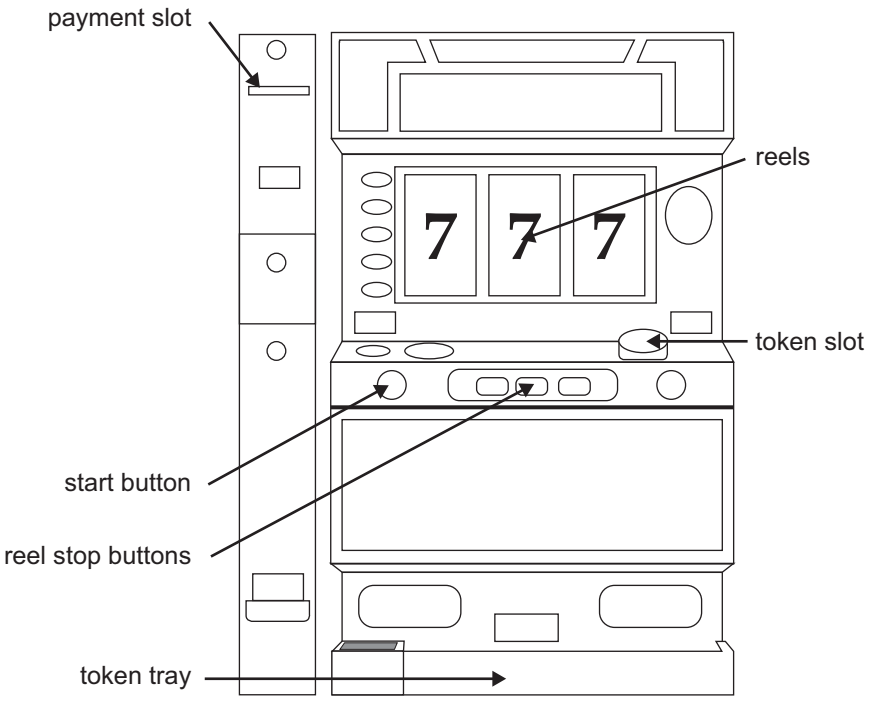
Pachinko



A pachinko machine resembles a vertical pinball machine. The objective of the game is to collect more pachinko balls. Upon inserting money or a pre-paid IC card into the payment slot adjacent to the machine, a number of small metal pachinko balls is dispensed into a tray that is located under the playing field. The player fires the balls into the playing field in rapid succession, controlling the velocity of the pachinko balls by turning a handle located next to the tray. Finding the proper balance in shooting strength is said to be the key to successful play, as turning the handle too far sends the pachinko balls straight into the exit chute and out of play, and not turning the handle far enough does not cause the balls to launch into the playing field.

Once shot into play, the pachinko balls then cascade down through the dense forest of pins in the playing field. Pachinko balls that fall into slots, or “pockets”, located along the bottom portion of the playing field trigger the release of more pachinko balls, which can be put back into play or exchanged for prizes; pachinko balls that do not fall into any pockets, and instead fall into the trap at the bottom of the playing field, are lost. There is typically one pocket near the bottom of the playing field, an “event start trigger” pocket, which causes images arranged in multiple columns on the digital screen in the centre of the playing field to spin, similar to the reels in a slot machine. If the images displayed on-screen present a winning combination when they stop spinning, a larger pocket in the playing field known as the “attacker” opens for limited periods of time. The player wins a predetermined number of pachinko balls for each pachinko ball that lands in the “attacker” during this “jackpot” mode. The game ends when the player either runs out of pachinko balls or decides to stop playing. Each machine may have its own theme or enhancing features such as a liquid crystal display that shows short video clips during play for added entertainment.

Pachislot



A pachislot machine is similar to a traditional casino slot machine, with three reels of different images in the field of play. The objective of pachislot is to collect more tokens by stopping the spinning reels such that the images on each reel match up to form a winning combination. To play, as with pachinko machines, a player inserts cash or a pre-paid IC card into the machine, which then dispenses tokens to be used in the game. The player inserts tokens into the machine and presses the start lever or button, which causes the three reels to begin to spin. While the reels are spinning, the player presses the stop button under each reel to stop the spinning of the corresponding reel. If, after the three reels have been stopped, two or more of the pictures match up, the player wins more tokens. If none of the pictures on the three reels matches up, the tokens played are lost. The game ends when the player either runs out of tokens or decides to stop playing. Much like pachinko machines, each pachislot machine may also have its own theme or enhancing features to provide the player with a more entertaining gaming experience.

Prizes

The pachinko balls or pachislot tokens collected by the player are counted and returned to the pachinko hall, and a receipt is issued to the player showing the number of balls or tokens collected. The player may then take the receipt to claim prizes at a convenience store-style centre in the pachinko hall, similar to exchanging tickets won for prizes at a carnival. The number of pachinko balls or pachislot tokens required in exchange for prizes vary by hall type and location. Generally, prizes must be claimed on the same day the receipt is issued. See “— Marketing — Membership system” for information on carrying over unused balls for subsequent visits. We do not exchange pachinko balls or pachislot tokens for cash.

Prizes provided by each pachinko hall are generally the types of goods sold in convenience stores, and commonly include snacks, drinks and cigarettes, as well as “G-prizes” described below. Our traditional halls offer a selection of approximately 600 types of “general prizes” (all prizes that are not G-prizes), the number and variety depending on hall type and

location. Our *Yuttari Kan* halls offer approximately 1,000 types of general prizes, and our *Shinrai no Mori* halls offer approximately 1,300 types. The value of pachinko balls or pachislot tokens required to redeem general prizes is determined with reference to suggested retail prices from the prize supplier. Regulations set the upper limit of the value of all prizes at ¥10,000. For more information, see "Laws and Regulations". We realize a margin on general prizes.

Apart from general prizes, players may also exchange the pachinko balls and pachislot tokens they collect for G-prizes, which comprise a small coin-shaped pendant of gold or silver, sometimes encased in a decorative plastic card. The value of pachinko balls or pachislot tokens required in order to collect a particular type of G-prize varies depending on hall type and location as well as the playing cost of the machine played, generally corresponding to a mark-up over the price, ranging from ¥200 to ¥5,000, at which we purchase such G-prize from our wholesalers. Therefore, similar to general prizes, we sometimes realise a margin on G-prizes due to the G-prize mark-up, where the monetary value of the number of balls or tokens required to collect a G-prize exceeds that of our purchase price for such G-prize. During the Relevant Period, the G-prize mark-up ranged from zero to approximately 40%. In general, G-prize mark-ups are higher in *Yuttari Kan* and *Shinrai no Mori* halls, which have a higher proportion of low playing cost machines targeting players playing for entertainment and recreation. Our Japan Legal Adviser confirms that such G-prize mark-ups are legal and valid under applicable laws and regulations in Japan.

Customers may choose to later sell their G-prizes to an independent prize buyer for amounts equivalent to the cost of such G-prizes. See "— Three Party System" for a description of the role of prize buyers in the pachinko industry.

Game performance

The pachinko and pachislot machines we purchase are pre-programmed by the manufacturer to comply with legal and technical specifications, such as payouts and probabilities of triggering certain modes of play (e.g. "jackpot" mode for pachinko or "bonus rounds" for pachislot). Different pachinko halls have different types of machines with different settings, so players may switch machines, or pachinko halls, if they are unsatisfied with any particular machine.

The payouts of pachinko balls and pachislot tokens resulting from "jackpot" or "bonus" modes as a percentage of total balls or tokens played is limited by law so as to discourage playing with the sole purpose of winning or "gambling". These regulations restrict the number of pachinko balls that the machine may pay out to between 0.5 to 2.0 times the number of balls put into play over a continuous 10-hour period; they restrict the number of pachislot tokens that the machine may pay out to between 0.55 to 1.2 times the number of tokens played during the course of 17,500 consecutive plays. These restrictions are contained in the Amusement Business Law, or its subordinate regulations, and are fully available to the public. For further information, see "Laws and Regulations — Regulations on Pachinko Operations".

By collecting data from our machines through our numerical analysis system on a daily basis, we are able to monitor the performance of our machines and determine whether they remain in compliance with applicable regulations. In the event that we detect significant fluctuations in this data, we are able to use this data to locate the machines that are not performing properly and make the appropriate adjustments to maintain compliance. See "— Information Technology" for more on the types of data collected from our machines.

BUSINESS

Three Party System

Consistent with standard industry practice in Japan, we operate our pachinko business in accordance with what is commonly referred to as the "Three Party System". The pachinko hall operators must not be party to any arrangements with customers that involve the exchange of prizes for cash or securities; therefore, we are prohibited from controlling, and do not otherwise interact with, the prize buyers at which our customers may sell their G-prizes for cash. For a detailed description of the laws and regulations relating to the pachinko business, see "Laws and Regulations".

Parties

In order to ensure compliance with the Amusement Business Law, the pachinko industry operates in accordance with what is commonly referred to as the "Three Party System", which requires independence among the three parties in the pachinko industry: (1) pachinko hall operators, (2) G-prize wholesalers and (3) prize buyers. We are a pachinko hall operator.

The G-prize wholesalers are entities which supply pachinko hall operators with the G-prizes for which pachinko balls or pachislot tokens can be exchanged. For a description of G-prizes, see "— The gaming experience — Prizes".

The prize buyers are independent entities to which pachinko customers can sell their G-prizes, which they have obtained from the pachinko halls, for cash in amounts equivalent to the amounts at which the G-prize wholesalers will then purchase such G-prizes from the prize buyers. General prizes may not be sold to the prize buyers.

Independence

We do not have any ability to exercise control, whether directly or indirectly, over the manner in which either the prize buyers or G-prize wholesalers operate their respective businesses, nor they over us, through (i) any equity holding or other capital relationship or connection, (ii) any relationship or connection between personnel (whether management, directors or staff), or (iii) any contract or other agreement with the prize buyers or G-prize wholesalers. See "— Risk management".

As our pachinko operations are monitored by the Prefectural Public Safety Commission in each relevant prefecture, in order to prevent any conflicts of interest that might otherwise arise, none of our Directors or senior management have been, or are, police officers in Japan. We also provide training on the Three Party System to our employees on a regular basis to ensure that they do not engage with prize buyers or G-prize wholesalers and to prevent them from unknowingly establishing a relationship with either of those parties.

Agreements with G-prize wholesalers

Our business with the G-prize wholesalers is generally based on two agreements: (1) a lease agreement for certain premises on the parcel of land where the relevant pachinko hall is located and (2) a purchase agreement for G-prizes.

Under the lease agreements, the G-prize wholesaler is restricted to use of the premises as office space and may not, without our prior approval, assign or sub-lease the premises, change the existing buildings or construct new buildings. We may lease multiple premises under a single lease agreement with the same G-prize wholesaler. In addition to a monthly rental fee, the wholesaler typically is also responsible for paying a fixed amount of the utilities each month. These leases generally last for a term of two years or less, with automatic annual renewals

unless we or the wholesaler objects, but in any event terminate in accordance with their terms one day prior to the expiration of our land lease, if any, for the site. We may also terminate the agreement at our option upon any breach by the wholesaler of any provisions of the agreement.

Our purchase agreements with the G-prize wholesalers typically consist of: (1) a continuous purchase and supply agreement and (2) a schedule specifying the number of G-prizes purchased. See "— Risk management" for more information on policy and procedures regarding wholesalers and business partners. Under the terms of these agreements, we pay the G-prize wholesaler a fixed monthly fee, which is approximately equivalent to 0.5% of the estimated aggregate cost of the G-prizes purchased on a monthly basis. Our halls purchase G-prizes daily from their respective G-prize wholesalers and settle payment in cash upon delivery at 100% of the cost of the prize.

According to our Japan Legal Adviser, the lease agreements and purchase agreements that we have entered into with our G-prize wholesalers do not contravene the Amusement Business Law as these arrangements do not affect our independence (i.e. do not allow us and the G-prize wholesalers either direct or indirect control over each other).

Typically, the G-prize wholesalers and prize buyers agree between themselves for the prize buyer to establish a presence on the property leased from us by the wholesaler, where customers may sell their G-prizes for cash. These arrangements between the G-prize wholesaler and prize buyer are common in the pachinko industry. Each G-prize wholesaler and prize buyer also enters into an arrangement under which the G-prize wholesaler purchases G-prizes from the prize buyer for cash on a daily basis, at an agreed amount equivalent to the purchase price paid by the prize buyer to the pachinko customers, which is also equivalent to the purchase price paid by the hall operator to the G-prize wholesaler, for such G-prizes. Under these agreements, the G-prize wholesalers also pay a fixed monthly fee to the prize buyers for their prize buying services, which allows the prize buyers to sustain their operations and to earn a profit.

We have no arrangements, relationships or agreements with prize buyers, and no ability to exercise control, whether directly or indirectly, over them, nor they over us, through (i) any equity holding or capital relationship or connection, (ii) any relationship or connection between personnel, or (iii) any contract or other agreement. Nor do the arrangements between the G-prize wholesaler and prize buyer create any relationship between us and the prize buyer.

Risk management

We have a detailed internal policy and procedures in place for the selection of our contractual counterparties, including the wholesalers and suppliers of various prizes, including G-prizes, that we purchase for our pachinko operations. Our Purchasing Department handles and oversees this selection and background check process. The background checks focus on two areas: (1) credit and (2) anti-social forces.

When considering an application requesting approval to engage a new contractual counterparty, our Purchasing Department reviews each potential counterparty's financial statements for the past three years as well as corporate documents and records. In addition, we conduct credit checks on our potential counterparties through a corporate data research agency, an Independent Third Party, where the value of our transactions with such parties are expected to exceed ¥1 million per year. In addition, we conduct annual credit checks with respect to all of our counterparties. Barring exceptional circumstances, we do not engage any entity receiving an unsatisfactory review.

We conduct anti-social forces checks on potential counterparties through a private investigation company, an Independent Third Party, that has access to a database of information collected from newspapers and other publicly available sources. If it is found that any of a potential counterparty's representatives, officers, executive officers or main shareholders belongs to or is related to any anti-social force, we do not engage with that entity.

In connection with each of our agreements with G-prize wholesalers, we require each wholesaler to deliver written declarations stating that they are independent from the prize buyers with whom they contract, and that they (including their shareholders, directors and prize buyers they contract with) do not have any connections to the Japanese mafia or other anti-social forces.

As at the Latest Practicable Date, after performing background checks on the relevant parties, our Japan Legal Adviser has confirmed that, to the best of their knowledge after due inquiry, the G-prize wholesalers with whom we contract, and the prize buyers engaged by the wholesalers, are independent from us.

We also carry out annual background checks on each G-prize wholesaler with whom we conduct business, and require each wholesaler to provide documentation to support these declarations that demonstrates that the prize buyers engaged by them do not have connections to the Japanese mafia or other anti-social forces. We also currently, and will continue to, engage the services of a third party corporate credit research and database service provider to conduct credit checks on each of our wholesalers.

Pachinko halls

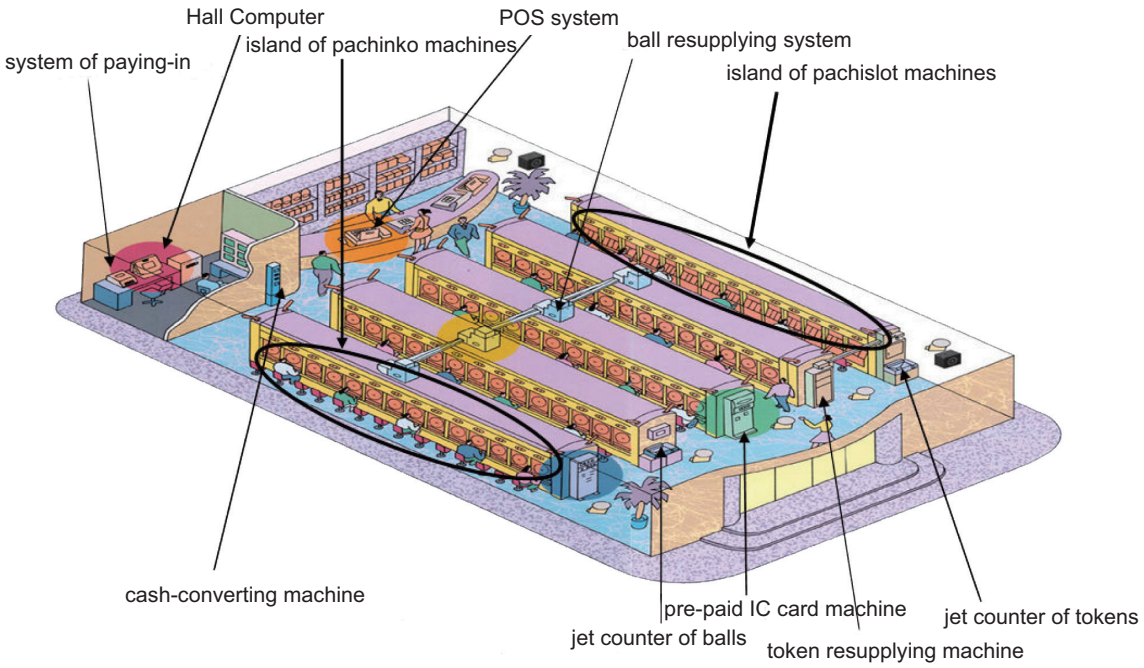
Of our 355 halls as at 31 March 2012, 344 feature a parking lot, which are usually in rural/suburban areas; 11 do not have a parking lot and are in urban areas. These halls provide a venue for customers to play pachinko and pachislot games and win prizes.

Chain-store management strategy

We utilise a chain-store management strategy, which leverages the economies of scale of our large-scale nationwide operations to centralise and standardise processes throughout our business, from branding and construction to management, machine procurement and daily operations. This strategy has resulted in significant cost savings and operational efficiencies. Thus, although each type of pachinko hall has its own specific characteristics and caters to and attracts a different customer base, in accordance with our chain-store management strategy, certain features of our halls remain constant regardless of type and customer base.

Since 1994, our standard new hall construction has comprised one-storey wooden halls, which have lower construction costs than steel, and are similar in appearance and layout. Generally, each pachinko hall has a total of approximately 400 to 480 pachinko and pachislot machines. The exact number and proportion of pachinko and pachislot machines in each hall are determined by population and mix of machines provided by competitors in the area. All of our halls have a standardised layout featuring many "islands", or rows of 10–40 machines each, separated by aisles. Each island features one type of machine (e.g. only 1-yen pachinko machines or only 5-yen pachislot machines). At the ends of these islands are jet counters for counting pachinko balls and pachislot tokens collected, and pre-paid IC card machines. There is typically a convenience store-like area further inside the hall where customers can "shop" for general prizes.

A typical layout for our pachinko halls is depicted in the figure below:



Some of our pachinko halls also provide an area, such as a noodle or coffee shop, for customers to purchase and consume food and beverages. Each hall also has snack and beverage vending machines, some of which are installed by DYH's wholly-owned subsidiary, Humap, and some of which are installed by third party operators. We receive commission income comprising a fixed monthly rental fee to the third party operators ranging from ¥6,000 to ¥15,000 for each machine and share approximately 15.0% to 60.0% of the gross proceeds from these vending machines. The vending machine operators are responsible for stocking, repairing and maintaining their machines. See "Connected Transactions — Non-Exempt Continuing Connected Transactions Subject to Reporting and Announcement Requirements".

Hall types

We operate three types of pachinko halls: (1) traditional halls, (2) *Yuttari Kan* halls, and (3) *Shinrai no Mori* halls. Our traditional halls primarily comprise halls operated under our *DYNAM* brand but also include two halls operated under the Cabin Plaza brand. Our *Yuttari Kan* halls primarily comprise halls operated under our *Yuttari Kan* brand, as well as halls operated by Cabin Plaza, Daikokuten and Okuwa Japan. Our *Shinrai no Mori* halls comprise halls operated under our *Shinrai no Mori* brand.

While the number of our traditional halls has remained stable during the Relevant Period, the number of our *Yuttari Kan* and *Shinrai no Mori* halls has increased steadily. This increase in *Yuttari Kan* and *Shinrai no Mori* halls is a result of our strategy to promote pachinko games as entertainment rather than gaming.

BUSINESS

The following table shows the movement of our traditional, *Yuttari Kan* and *Shinrai no Mori* halls during the periods indicated.

Traditional halls[(1)]

	Year ended 31 March		
	2010	**2011**	**2012**
Number of halls at the beginning of the period	175	176	176
Acquisition of subsidiaries during the period	3	—	—
Addition of halls during the period	—	—	—
Transfer of types of hall during the period[(2)]	(2)	—	—
Number of halls at the end of the period	**176**	**176**	**176**

***Yuttari Kan* halls[(1)]**

	Year ended 31 March		
	2010	**2011**	**2012**
Number of halls at the beginning of the period	124	130	132
Acquisition of subsidiaries during the period	3	2	—
Addition of halls during the period	1	1	3
Closed halls during the period	—	(1)	—
Transfer of types of hall during the period[(2)]	2	—	—
Number of halls at the end of the period	**130**	**132**	**135**

***Shinrai no Mori* halls**

	Year ended 31 March		
	2010	**2011**	**2012**
Number of halls at the beginning of the period	3	25	42
Addition of halls during the period	22	17	2
Number of halls at the end of the period	**25**	**42**	**44**
Total	**331**	**350**	**355**

(1) We acquired Cabin Plaza, Daikokuten and Okuwa Japan in 2009, 2009 and 2010, respectively. As part of these acquisitions, we succeeded to the ownership of a total of eight halls run by these entities. As at 31 March 2012, there were a total of nine halls operated by these subsidiaries, seven of which were categorised as *Yuttari Kan* halls and two of which were categorised as traditional halls. While we are in the process of integrating these halls into our business operations, we intend to continue to operate these halls under their current respective brands, as we would have to incur significant capital expenditures to reconstruct these halls consistent with our *DYNAM* and *Yuttari Kan* brands.

(2) These halls were remodelled to *Yuttari Kan* halls, and as a result were transferred from classification as traditional halls to classification as *Yuttari Kan* halls.

The table below sets forth a breakdown of the average number of pachinko and pachislot machines per hall by type of hall during the periods indicated.

	Year ended 31 March		
	2010	2011	2012
Pachinko			
Traditional	364	356	354
Yuttari Kan	312	314	313
Shinrai no Mori	321	318	313
Pachislot			
Traditional	115	123	126
Yuttari Kan	81	88	96
Shinrai no Mori	77	82	86

The following table sets forth, as at 31 March 2012, information on the percentage of low and high playing cost machines at each type of pachinko hall:

Playing cost	Traditional	*Yuttari Kan*	*Shinrai no Mori*	Total
Pachinko				
Low playing cost	22.7%	99.8%	99.1%	59.2%
High playing cost	77.3%	0.2%	0.9%	40.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Pachislot				
Low playing cost	2.3%	100.0%	100.0%	44.4%
High playing cost	97.7%	—	—	55.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Traditional halls

The traditional halls operated by DYNAM Co., Ltd. can be identified by our traditional *DYNAM* logo depicted below:

The main characteristics of our traditional halls are the following:

- primarily high playing cost machines;
- selection of approximately 600 types of general prizes;
- smoking is permitted; and
- mostly male customers who are frequent players.

We will continue to target male, frequent players as our primary customer base for our higher playing cost halls.

Yuttari Kan halls

Our *Yuttari Kan* halls can be identified by the logo depicted below:

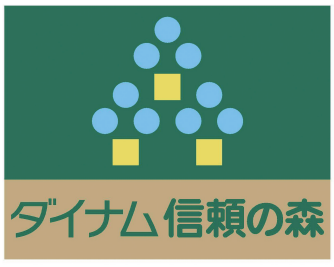
We began operating halls with low playing cost machines in 2006, and these halls have been operated under our *Yuttari Kan* brand since 2007. These are halls that have been converted from traditional *DYNAM* pachinko halls, and provide a lower-cost entertainment option for customers who enjoy the traditional hall atmosphere and playing experience and have the following features:

- primarily low playing cost machines;
- a broad selection of over 1,000 types of general prizes in order to appeal to a broader customer base;
- smoking is generally permitted; and
- customers comprise a broader age group, including younger and elderly players.

Over the next three years, we intend to focus on increasing the percentage of *Yuttari Kan* halls in our operations, as we believe that this hall type strikes a balance between a traditional hall environment and a lower-cost leisure atmosphere.

Shinrai no Mori halls

Our *Shinrai no Mori* halls can be identified by the logo depicted below:



We introduced our *Shinrai no Mori* brand in 2009. These halls have the following features:

- primarily low playing cost machines;
- smoking is generally prohibited, with a designated closed-off smoking area and an air purification system for better air circulation and quality;

- a large selection of over 1,300 types of general prizes, similar to the selection and variety that can be found in convenience stores and which include health foods, vitamins and various health supplements;
- a "relaxation space" for players to gather and socialise;
- reduced noise levels, providing a more comfortable playing environment; and
- customers comprise a broader age group, including younger and elderly players.

We plan on continuing to promote our *Shinrai no Mori* brand by cultivating its image as a comfortable and inviting meeting place for local community residents in order to increase customers' time spent in the hall.

The following table sets forth the gross pay-ins and revenue for our pachinko operations by type of hall for the periods indicated:

	Year ended 31 March						
	2010		2011		2012		
			(in millions, except for percentages)				
	¥	%	¥	%	¥	*HK$*	%
Gross pay-ins[1]							
Traditional	759,481	88.1	713,444	83.0	734,245	69,008	80.8
Yuttari Kan	94,318	10.9	116,295	13.5	133,496	12,547	14.7
Shinrai no Mori	8,224	1.0	30,143	3.5	40,568	3,813	4.5
Total	**862,023**	**100.0**	**859,882**	**100.0**	**908,309**	**85,368**	**100.0**
Revenue[2]							
Traditional	121,840	73.6	118,174	69.7	110,914	10,424	67.2
Yuttari Kan	41,193	24.9	42,378	25.0	42,922	4,034	26.0
Shinrai no Mori	2,428	1.5	9,085	5.3	11,242	1,057	6.8
Total	**165,461**	**100.0**	**169,637**	**100.0**	**165,078**	**15,515**	**100.0**

(1) Represents the amount received from pachinko balls & pachislot tokens rented to customers, less unutilised balls and tokens.

(2) Represents gross pay-ins, less gross payouts to customers. See "Appendix I — Accountants' Report".

NEW HALL DEVELOPMENT

In conjunction with our expansion strategy, we continually work towards identifying potential locations for opening new halls. When selecting a location for opening a new hall, we consider the following characteristics of the targeted region: (1) the population density, (2) the number of competing halls, (3) the number of machines in the competing halls and (4) the average number of players per machine. These factors also determine whether the selected location is most suited to the opening of a traditional, *Yuttari Kan* or *Shinrai no Mori* hall. Our management has final approval over this selection process.

Currently, we plan on opening new halls in the following regions as set forth in the table below.

	During the year ending 31 March		
Region	**2013**	**2014**	**2015**
Hokkaido	—	1	—
Tohoku	1	—	1
Kanto	6	10	10
Chubu	3	4	5
Kansai	4	3	12
Chugoku	—	2	—
Shikoku	1	—	—
Kyushu	5	5	2
Total	**20**	**25**	**30**

Our plans for expansion are based on various assumptions, including the following:

- industry trends continuing to develop as we anticipate;
- our ability to respond to changes in the competitive landscape, both with respect to other pachinko operators as well as other types of entertainment;
- our ability to respond to changes in the regulatory environment for pachinko in Japan;
- favourable economic, political and other conditions in Japan and elsewhere in Asia; and
- our future financial condition, results of operations and cash flows.

MACHINE SOURCING/DISPOSAL

In conjunction with sourcing, transferring and disposal of the pachinko and pachislot machines in our halls, we operate a centralised system to (1) gather information on machine utilisation in our halls and necessary market information for planning purposes, (2) procure new machines, (3) procure second-hand machines and (4) manage, schedule and coordinate the transfer and disposal of machines.

New and second-hand machines

We regularly acquire new and second-hand pachinko and pachislot machines for installation in new pachinko halls or to replace older machines in our existing pachinko halls in order to keep up with changing customer preferences and modern trends which we believe appeal to customers. When possible, we purchase second-hand pachinko and pachislot machines; we also source a significant percentage of our replacement machines from within our Group, rotating and reallocating machines among our pachinko halls as appropriate depending on customer trends and preferences. The significant cost savings resulting from these measures are important to our profitability because our machines comprise a large portion of our operational costs. In particular, new and updated machines are a major factor in attracting the frequent players who visit our traditional halls. We therefore primarily purchase new machines for use as 4-yen machines in our traditional pachinko halls, and are able to transfer replaced 4-yen machines for use as 1-yen machines in other halls within our Group. We employ a similar strategy for the acquisition of pachislot machines, primarily purchasing new pachislot machines to be used as 20-yen machines and which may later be used as, and to replace, 5-yen pachislot machines.

The following table sets forth a breakdown of our pachinko and pachislot machine costs from suppliers or second hand dealers during the periods indicated.

	Year ended 31 March						
	2010		2011		2012		
	(in millions, except for percentages)						
	¥	*%*	*¥*	*%*	*¥*	*HK$*	*%*
Brand new	31,472	91.3	37,072	92.5	32,063	3,013	93.4
Second hand	2,997	8.7	2,987	7.5	2,284	215	6.6
	34,469	100.0	40,059	100.0	34,347	3,228	100.0

The following table sets forth our number of pachinko and pachislot machines purchased during the periods indicated:

	Year ended 31 March					
	2010		2011		2012	
	(number of machines, except for percentages)					
		%		*%*		*%*
Brand new	98,623	84.3	117,689	87.5	102,662	85.9
Second hand	18,430	15.7	16,773	12.5	16,913	14.1
	117,053	100.0	134,462	100.0	119,575	100.0

Each pachinko hall reviews and makes decisions regarding its mix of machines on a weekly basis. The machines selected for removal and disposal are sent to the distribution centre that supports that pachinko hall. Each distribution centre takes inventory of these machines on a monthly basis.

Our hall managers place requests for new pachinko and pachislot machines using our Machine Management System. We negotiate the relevant sales agreements with manufacturers, specifying the number and type of machines, price, payment method and the hall(s) in which the machines are to be installed. The relevant zone manager decides how many and which machines to acquire, arranges the acquisition, places the order with the manufacturer or dealer, obtains confirmation from the manufacturer or dealer and arranges for delivery of the machines to the appropriate distribution centre.

We source second-hand pachinko and pachislot machines from dealers pursuant to purchase contracts that we enter into with them. We continuously monitor the price and quality of machines sourced by each of the dealers we contract with and request detailed quotations each time we make a purchase, in accordance with our guidelines for second-hand machine acquisition.

Private brand machines

In 2006, we began developing our own private brand machines for installation in our pachinko halls, typically as 1-yen machines. Unlike "national brand" machines, which are standard machines designed and sold by manufacturers, our private brand machines are manufactured in bulk and customised according to our specifications. Using information that we gather from our membership system, we negotiate with manufacturers to produce machines specifically tailored to meet the preferences of our customers. Our private brand machines are generally much simpler and have fewer features than typical pachinko machines, and are therefore more user-friendly.

For the years ended 31 March 2010, 2011 and 2012, approximately 2.7%, 4.4% and 5.8%, respectively, of our machine purchases were private brand. We intend to continue to increase the proportion of private brand machines at our pachinko halls. The average price of our private brand machines are less than the average market price of national brand machines.

Machine suppliers

We settle our payments in full with our machine suppliers in the month following the date of purchase of the machines.

In the years ended 31 March 2010, 2011 and 2012, our five largest machine suppliers accounted for approximately 67.6%, 56.2%, and 50.6%, respectively, of our total purchases of pachinko machines and pachislot machines. Our single largest machine supplier in the same periods accounted for approximately 32.2%, 23.0% and 13.1%, respectively, of our machine purchases.

None of our Directors or any of our Shareholders as of the Latest Practicable Date or any of their respective associates had any interest in any of our five largest machine suppliers during the Relevant Period.

Distribution centres

Our 13 distribution centres support our machine sourcing functions for all of our halls operated by Dynam throughout Japan. The halls operated by Cabin Plaza contract with third party for machine storage and delivery. The halls operated by Daikokuten and Okuwa Japan source their machines directly from the manufacturers. We plan to integrate the halls operated by Cabin Plaza, Daikokuten and Okuwa Japan into our distribution system by December 2012. As at 31 March 2012, we ran 13 centralised distribution centres throughout Japan, each of which was managed by our Logistics Department and handles the machines for all the halls in its region. For a map showing the locations of our distribution centres, see "— Pachinko Operations".

Distribution centre	Location	Number of halls supported
Sapporo	Sapporo, Hokkaido	20
Akita	Oga, Akita	23
Yamagata	Higashine, Yamagata	23
Miyagi	Osaki, Miyagi	29
Ibaraki	Sakuragawa, Ibaraki	27
Gunma	Takasaki, Gunma	32
Misato	Misato, Saitama	24
Ishikawa	Kanazawa, Ishikawa	35
Shiga	Higashiomi, Shiga	33
Okayama	Tamano, Okayama	30
Kagawa	Sakaide, Kagawa	23
Fukuoka	Tachiarai, Fukuoka	25
Miyazaki	Kobayashi, Miyazaki	22
Total		**346**

All of our new and second-hand machines are delivered by manufacturers and dealers first to one of our distribution centres before delivery and installation at our pachinko halls. We inspect the machines for compliance with legal requirements, clean the machines and apply for the requisite approvals from the Prefectural Public Safety Commission for the transfer and installation of the machines at our halls. Our Logistics Department arranges for the delivery of

the machines from the distribution centres to the individual pachinko halls. We have video cameras monitoring the activity in our distribution centres. Our centralised distribution through these centres allows us to source machines more efficiently, reduce our operating costs, and ensure compliance with regulations governing pachinko and pachislot machines. In addition, because our distribution centres can store machines on-site pending delivery to our halls, we are able to install machines after the close of hall operating hours, thereby eliminating the need to close the hall during business hours in order to receive delivery of machines and minimising disruption to our daily hall operations. Our Machine Management System, which tracks the distribution history of each machine, may be used to file certain applications required in the distribution, replacement and removal of the machines. See "— Information Technology — Machine Management System" for more information.

Removal and disposal of machines

We arrange for removal and disposal of old machines from the pachinko halls. Old machines may be: (1) transferred to our other pachinko halls, (2) sold back or traded in exchange for a new machine to the original manufacturer, or (3) sold to second-hand dealers through an auction process to the highest bidder. If a machine is sold back to the original manufacturer, the manufacturer may purchase the entire machine or only the components it considers to be of use. Private brand machines may not be sold to second-hand dealers, and may only be transferred to another of our halls or sold back to the original manufacturer.

Compliance

Our machine purchase agreements require us and our counterparty to comply with the Amusement Business Law. In addition, we generally undertake and warrant in the agreements that we are not in violation of the laws regarding adjustment or remodelling of machines and that we will permit the Organisation for Sound Development of Pachinko & Pachislot Industry ("OSDPPI"), a third party self-regulatory organisation in Japan, to inspect our machines.

According to the Amusement Business Law and National Public Safety Commission regulations, pachinko and pachislot machines must meet certain technical standards. The Amusement Business Law also requires each pachinko hall to obtain permission before moving and installing pachinko and pachislot machines. See "Laws and Regulations". Under these regulations, each pachinko hall must apply for and obtain the approval of the Prefectural Public Safety Commission by submitting a written application. Our machines, whether new or second-hand, are delivered to one of our 13 distribution centres, which keep track of the delivery of these machines, subsequent intra-Group transfers of machines to different halls, and the ultimate disposal of the machines. Before a new or second-hand machine is shipped to us, the prefectural police must certify the eligibility and compliance of the machine or replacement part, which is evidenced by a "Notice of Inspection" issued to the manufacturer (for new machines) or dealer (for second-hand machines) who then provide the Notice of Inspection to us. In addition, the machines are inspected both at the distribution centre and again at the pachinko hall where they are to be installed. The manufacturer (for new machines) or the dealer (for second-hand machines) also provides us with Certificates of Guarantee certifying that the machines they provide to us, which are individually identified by a unique serial number, have been inspected by the local police authorities. A similar notice and certificate are issued when machine parts are replaced. In addition, prior to operation of a new or second-hand machine, the pachinko hall must submit an application to the local police authority to request an inspection, upon completion of which an approval is granted and operation of the machine may begin. The police may inspect the machines at random after installation in the pachinko hall.

Japanese regulations prohibit the installation of private brand machines in a pachinko hall that do not meet the technical specifications prescribed by law. By purchasing machines which have received approval from the Security Communications Association and the Prefectural Public Safety Commission, we reduce the risk of purchasing and installing non-compliant machines in our halls. Once approved by the Prefectural Public Safety Commission, the machine may be installed in the hall, subject to subsequent inspection by the prefectural police.

PRIZE PROCUREMENT

We procure our general prizes from our general prize suppliers and G-prizes from our G-prize wholesalers. For information on our policies and procedures for selecting and engaging potential business partners, including background checks with respect to creditworthiness and anti-social forces, see "— Pachinko Operations — Three Party System — Risk management". Our *Shinrai no Mori* halls offer the widest variety of prizes, followed by our *Yuttari Kan* halls and then our traditional halls. In the year ended 31 March 2012, approximately 98.9% of prizes claimed in our traditional halls, in terms of value, were G-prizes. By contrast, approximately 89.7% of the prizes claimed in our *Yuttari Kan* halls, and approximately 93.8% of prizes claimed in our *Shinrai no Mori* halls, are G-prizes.

General prizes

We currently purchase our general prizes from approximately 60 general prize suppliers through our Prize Management System. Each hall manager has discretion over the types of prizes offered in each individual hall, choosing from a master list of available prizes provided by our Purchasing Department. Our Purchasing Department submits a written request for approval with our Legal Department, Administrative Management Department and Sales Service Department. Finally, our CEO must also approve the general prize supplier.

We enter into continuous purchase agreements with some of our general prize suppliers, pursuant to which we place orders based on our inventory needs. These purchase agreements are typically valid for a year, and are automatically renewed on a yearly basis. Payments to our suppliers are made on a monthly basis in the month following the month during which the goods are received. For our most popular general prizes, we utilise our POS system, which automatically places orders when the inventory of a certain prize in our Prize Management System falls below a predetermined level.

In the years ended 31 March 2010, 2011 and 2012, our five largest general prize suppliers accounted for approximately 84.1%, 85.4%, and 87.2%, respectively, of our total purchases of general prizes. Our single largest general prize supplier in the same periods accounted for approximately 36.4%, 36.0% and 37.4%, respectively, of our total purchases of general prizes.

None of our Directors or any of our Shareholders as of the Latest Practicable Date or any of their respective associates had any interest in any of our five largest general prize suppliers during the Relevant Period.

G-prizes

We currently purchase our G-prizes from eight prize wholesalers. Our headquarters appoints our G-prize wholesalers and enters into a standardised master agreement with each G-prize wholesaler who satisfies our background check criteria. Our headquarters assigns one approved G-prize wholesaler for each of our halls. Day-to-day G-prize procurement is handled by hall staff and overseen by hall managers at each individual hall. These duties include:

- deciding the quantity of G-prizes to be purchased each day subject to the limits set by our headquarters;
- placing purchase orders;
- checking the G-prizes delivered against the relevant purchase order;
- handling cash payments for G-prizes;
- maintaining the inventory of G-prizes; and
- counting and reconciling the number of G-prizes on a daily basis.

For information on internal control measures relating to G-prize procurement, see "Internal Controls and Anti-Money Laundering — Internal Controls Relating to Cash and G-prizes".

In the years ended 31 March 2010, 2011 and 2012, our five largest G-prize wholesalers accounted for approximately 95.3%, 95.5%, and 95.5%, respectively, of our total purchases of G-prizes. Our single largest G-prize wholesaler in the same periods accounted for approximately 52.2%, 51.3% and 52.8%, respectively, of our G-prize purchases.

We, our subsidiaries, our shareholders, Directors and senior management, and associates of such persons, have not had, and do not currently have, any relationship with the G-prize wholesalers (including family, trust or employment relationships).

PACHINKO BALLS AND PACHISLOT TOKENS

We also depend on a vendor to supply pachinko balls and a vendor to supply pachislot tokens. We believe that we would be able to enter into new arrangements on similar terms with alternative or additional suppliers if necessary. Pachinko balls and pachislot tokens are generally only purchased to equip new halls that we open, and repurchases are not typically required for halls once they have commenced operations.

MARKETING

Membership system

Our membership system was implemented in 2002 for the convenience of our customers so that they would be able to carry over unused pachinko balls or pachislot tokens to subsequent visits. Each of our pachinko halls keeps its own register of members, and each member's membership is valid only at the pachinko hall where they registered (i.e. they may only use the balls or tokens carried over at the same hall at which they were originally rented). The balls and tokens are non-transferable, and if a member is inactive for five years, any balls or tokens credited to that member are forfeited. The maximum number of pachinko balls or pachislot tokens which may be carried over is 999,999 and 199,999, respectively.

Although our membership system allows customers to carry over pachinko balls and pachislot tokens for their use during subsequent visits to the hall, membership cards contain only member information and no record of the balls or tokens to be carried over. A customer must present his identification card to verify his identity when he applies for membership. Upon issue of a membership card, a member must enter a password or present his identification card in order to use or access his data and the stored balls or tokens on the card. Our Japan Legal Adviser has advised us that, because the only record of the number of balls and tokens carried over is stored on the servers of our hall computers and our IT systems, our membership system does not constitute written documentation of the hall holding the balls or tokens for the customer, as the purpose of the restriction on written documentation is to prevent customers from trading rented balls or tokens by means of written documentation outside of the pachinko hall.

There is no fee associated with membership at any of our pachinko halls. Any customer may apply for membership and become a member as long as they provide verification of their age and identity. Our membership system has now become a marketing tool to target and encourage repeat customers, while also providing us with useful information about our customer demographics and preferences for various types of pachinko machines. We use this information to determine the features and specifications to include in our private brand machines, as well as the overall mix of machines in our pachinko halls. See "— Machine Sourcing/Disposal" for more information. We also send periodic newsletters and notices to our registered members.

As at 31 March 2012, we had 284,811 active members at our pachinko halls, defined as a member who has made one visit to the hall within the preceding calendar month. The following table shows our active members grouped by age and gender as at 31 March 2012:

	Younger than 30 years old	30–39 years old	40–49 years old	50–59 years old	60 years old and older	Total
Male	11.5%	14.7%	14.8%	16.0%	18.2%	75.1%
Female	2.3%	3.4%	4.4%	6.1%	8.7%	24.9%

Advertising

We conduct advertising, public relations and sales promotion activities to support our pachinko operations. We set a budget and implementation guidelines for advertising. Our sales and marketing team gathers information from each zone regarding customer preferences and playing trends, and proposes sales promotion plans. Based on the localised market information gathered from each zone by our sales team, we engage external advertising agencies that create advertising plans and materials.

We advertise through print media, television commercials, internet advertising, and special promotions. We use liquid crystal display advertisements and POP (point of purchase) advertisements in our halls, sponsor television programs targeting younger and elderly audiences, and place print media advertisements in coffee shops and restaurants. To reach out to a wider audience, we have a video commercial on Youtube, a player-targeted website and a Twitter feed. A key part of our advertising developed by external advertising agencies has been the introduction of a cast of animated characters, known as "Moories", which are associated

with our pachinko halls, in particular our *Shinrai no Mori* brand. These characters were designed to appeal to our potential female customer base. We have engaged a scriptwriter to design a story line for the Moories characters and the first story was published in "*Josei Seven*", a weekly women's magazine, in October 2011.

We have also created two "Yuttaries", which are characters associated with our *Yuttari Kan* brand:

Promotional and advertising activities in the pachinko industry are regulated by Japanese law, which prohibits advertisements and promotions of pachinko hall businesses that imply improper adjustments to pachinko or pachislot machines, illegal alteration of payout probabilities and other acts that may encourage a "passion for gambling". Failure to comply with the relevant regulations and restrictions could result in various penalties administered by the authorities, the most severe of which would be a cancellation of our license to operate a pachinko hall business. In order to ensure our compliance with these regulations on advertising and promotional activities, our Legal Department monitors these activities. For information on regulation of the pachinko industry and related advertising, see "Laws and Regulations — Advertising and promotion regulations".

For the years ended 31 March 2010, 2011 and 2012, we spent approximately ¥6,343 million, ¥7,666 million and ¥6,265 million (equivalent to approximately HK$589 million), respectively, on advertising and promotional activities, representing approximately 4.7%, 5.3% and 4.5%, respectively, of our hall operating expenses.

INFORMATION TECHNOLOGY

Our IT systems are managed by our IT department, and plays a crucial role in the operation of our business and the collection and preparation of financial and operational information . The system planning division of our IT department strategically plans and manages our systems and the related contracts with our vendors. The Project Management division develops our systems, performs patch management and teaches users to use the system. The System Support division provides support for users and data maintenance, and is also responsible for information security.

Our IT system consists of a network of software systems, which includes our Hall Management System, Sales Management System, Competing Hall Analysis System, Numerical Analysis System, Prize Management System and Human Resources Management System. These systems and the corresponding data centre are independently provided and maintained by PA Network Laboratory Co., Ltd. ("PA Net"), Mars Engineering Corporation ("Mars"), and other third party hall equipment and software vendors. PA Net provides computer systems that

gather information from machines and related equipment in our halls and also supports the hall server that consolidates data from all the PA Net and Mars systems. The Mars systems manage pre-paid IC card machines, the payment slot into which money or pre-paid IC cards are inserted to obtain balls or tokens, the jet counters for pachinko balls and pachislot tokens and prize management information. We have taken precautionary measures to protect our IT systems and data centre with: (1) a data backup system, (2) an emergency power generation system and (3) earthquake reinforcement at our data centre. See "Internal Controls and Anti-Money Laundering — Internal Controls Relating to Information Technology and Computer Systems".

As at 31 March 2012, our IT systems supported the operations of our 346 halls operated by Dynam Co., Ltd. The halls operated by Cabin Plaza and Okuwa Japan joined our group portal site and mail service in December 2011 and November 2011, respectively. We plan to fully integrate the halls operated by Cabin Plaza, Daikokuten and Okuwa Japan into our Group-wide IT system by December 2012. Currently, these subsidiaries send daily reports including operational and financial data to our headquarters.

Hall Management System

We have installed a computerised system ("Hall Computer"), developed by PA Net, at our pachinko halls. The Hall Computer collects real-time information on the number of pachinko balls or pachislot tokens rented, played and paid out at each pachinko and pachislot machine and transmits it to our Hall Management System every hour via a decrypted line. Each hall manager and zone manager is granted access to view this data within their respective hall/zone so that they may monitor hall operations; this also allows managers to quickly detect irregular activities at the pachinko halls. However, only our headquarters management team is granted access to the data collected from all of our pachinko halls for monitoring the overall performance and machine utilisation of our hall operations.

Sales Management System

The Hall Computers also transmit information on the number of customers, pay-ins and value of prizes claimed to the Sales Management System. Our Sales Management System uses the information from the Hall Computers to generate performance reports, providing information such as utilisation rates of machines and profits from our halls, which we use to analyse performance and set budgets. We can compare and analyse this operating data against information regarding our competitors that is collected by our Competing Hall Analysis System.

Competing Hall Analysis System

In order to understand our competition in each zone, we conduct surveys of our competitors during our competing halls' operational hours each day. The survey results (showing the number of players in the hall and the types of machines being played) are input into our Competing Hall Analysis System and transmitted to our Numerical Analysis System every day. The collected data presents a clearer picture to our management of our relative number of clients, utilisation and market share. Our hall managers closely monitor this information and make strategic decisions and promotional campaigns to draw in more business based on this data.

Numerical Analysis System

Our Numerical Analysis System's major functions are (1) monitoring the overall management of our pachinko halls and (2) collecting information on machines to use in planning future sourcing strategy. It receives data collected by our Hall Management System and Competing Hall Analysis System on a daily basis. This system generates business analysis

reports showing operations, actual sales and profit/loss of each machine based on the data from our Hall Management System. Managers can view the data collected from these reports as a whole or by selected variables (such as by individual machine or by type of machine) and compare current results with historical data. Read in conjunction with the information received from the Competing Hall Analysis System, and compared to management's business plans, this report allows our management team to closely monitor, plan and make well-informed, timely decisions regarding business strategy. Information gathered from machines regarding utilisation, money spent by customers per machine and popularity factor prominently in our decisions in acquiring new and/or second-hand machines.

Machine Management System

Our Machine Management System plays an important role at each stage from machine purchasing to machine disposal. This system collects and manages information regarding the replacement, ordering, inspection, quality control, relevant approvals, transfer and disposal of new and second-hand machines. It can track the status of individual machines based on the unique identification number of each machine, which is organised in the system's database. This data is used in conjunction with our Sales Management and Hall Management Systems.

Prize Management System

Our Prize Management System is provided by Mars. Through our POS system, we manage the inventory of our general prizes and G-prizes. This information is transmitted to our Prize Management System every 15 minutes via a decrypted line. In this way, we are able to keep up-to-date and accurate inventories of our various prizes, consolidate orders of general prizes, and when appropriate, arrange for periodic, automatic purchases of products with a high turnover rate. This system also provides a reference point for estimating the volume of future prize purchases based on this cumulative historical data.

Human Resources System

Our Human Resources Management System manages the records of all the employees in our Group. Using information collected from the Employee Management System, this system calculates payroll, including salaries and bonuses, for our Group's employees.

Security Measures

Our SuperStream-CORE System (which records company-wide accounting transactions), Machine Management System and Sales Management System are accessible to authorised Dynam staff only. Staff must have a password to access these systems at the application level. These systems may not be altered without the approval of the System Support division manager. Our networks are protected by firewalls and anti-virus software. Access to our networks by our employees is also limited by those with password authorisation. For more information on control over these systems, please see "Internal Controls and Anti-Money Laundering — Internal Controls Relating to Information Technology and Computer Systems".

COMPETITION

According to Yano Research, the pachinko business in Japan is fragmented, comprising approximately 4,000 pachinko hall operators throughout Japan in 2010. Our major competitors are large pachinko operators. We also compete with other types of entertainment and gaming activities, including web-based gaming, potentially interactive gaming channels, and horse racing in Japan. We may also face competition from casinos and other gaming venues, particularly contemplated legislation to approve the operation of casinos in Japan. See "Risk

Factors — Risks Relating to Our Business — We face intense competition in Japan". We compete on the basis of variety and type of pachinko and pachislot games offered, types of prizes offered at our halls and players' other personal preferences.

In order to remain competitive in the pachinko industry, we conduct a "competing hall analysis" of our major competitors and record the results of our surveys on a daily basis. We use the information gathered from this analysis in order to plan our future business and marketing strategies and evaluate the effectiveness of our current business and operations. See "— Information Technology — Competing Hall Analysis System".

EMPLOYEES

As at 31 March 2012, we had 4,384 permanent full-time employees, 951 contract full-time employees, 4,761 part-time employees and 28 management staff. Of our employees, 8,774 are employed in our pachinko halls. The following table sets forth the approximate number of our employees by function as at 31 March 2012:

Function	Number
Management	28
Customer service and technical support	41
Sales and marketing	643
Hall management	1,833
Hall attendants	6,941
Procurement	23
Finance	10
IT	29
Others	576
Total	**10,124**

Among our management staff are 19 regional zone managers who are responsible for overseeing the daily operations of the pachinko halls located in their respective zones. A typical pachinko hall is staffed with one Store Manager, four Assistant Managers, approximately five full-time and 15 part-time employees (hired by the hall manager as allowed by the budget set by our headquarters).

Our permanent full-time employees, who are hired by the headquarters, may be relocated to different pachinko halls run by us throughout Japan. These employees mainly handle various managerial and administrative functions at our headquarters and pachinko halls. They receive performance evaluations on a semi-annual basis. We do not enter into formal written employment contracts with our permanent full-time employees. Consistent with common practice in Japan, such employees are subject to working regulations which we establish and keep on file with the labour standards inspection office. These working regulations cover various matters, including but not limited to hiring, compensation, annual vacation policy, duties of the employee, and disciplinary measures. We provide our employees with a copy of these working regulations upon employment. In the event of disputes regarding terms of employment or other related matters, the working regulations, as well as applicable laws and regulations, will determine the respective duties and rights of us and our employee.

Our contract full-time employees are locally employed at individual pachinko halls and are involved in the pachinko hall daily operation and related tasks in the pachinko halls. We enter into individual employment contracts with these employees, who are evaluated every six months for bonuses and may renew their employment on an annual basis. Our part-time employees are employed to perform supporting functions in the pachinko halls such as clerical work, car park attendant duties or other tasks specified in their contracts. We also enter into individual

employment contracts with these employees, who are evaluated every six months and may be subject to a probation period, at the end of which the part-time employee may have the opportunity to re-contract for employment. The employment contracts with our contract full-time and part-time employees specify matters such as position, term of employment, responsibilities, remuneration and grounds for termination.

Total remuneration for full-time employees at our headquarters and pachinko halls as well as for management staff comprises basic salaries and bonuses, while the remuneration for part-time employees at our pachinko halls is calculated at an hourly rate as specified in the respective employment contracts.

Labour union

We established a labour union, of which all of our employees, other than management and certain employees with limited responsibilities, are members, in 1998. Our labour union collectively bargains on behalf of our employees for compensation and welfare-related issues, participates in labour-management consultations and handles other consultations and investigations as necessary for the welfare of our employee members. We have not experienced any strikes or other labour disturbances which have interfered with our operations. We believe that we have good relations with our employees.

As at the Latest Practicable Date, our Group was in compliance with all applicable labour and employment regulations. We currently have in place internal control systems and risk management procedures to monitor compliance with labour, employment and other applicable regulations. Going forward, our Company, through its legal department, will continue to monitor all labour issues to ensure compliance with all applicable labour and employment regulations.

Recruitment and training

We recruit, place and train our employees with a focus on new graduate recruitment. In the years ended 31 March 2010, 2011 and 2012, we hired approximately 430, 520 and 250 new graduates, respectively, from community colleges and universities across Japan. Approximately 60% of the new graduates we have hired since 1989 are still employed by us, and approximately 40% of our managers were persons who joined us as new graduates.

During the years ended 31 March 2010, 2011 and 2012, we spent approximately ¥156 million, ¥165 million and ¥154 million (equivalent to approximately HK$14 million), respectively, per year on training for our staff. We own training facilities in Shizuoka and Yamaguchi Prefectures where we conduct trainings for our employees. Since 1997, we have held a "Life College" training program for all of our full-time employees in order to foster a sense of unity among our staff. We also provide educational opportunities to all our employees periodically, which may include internal study meetings and training programs, as well as specific trainings tailored to management staff, sales executives and customer service staff. We aim to provide all of our employees with at least one opportunity to participate in our educational and training programs each year.

ENVIRONMENTAL MATTERS

We are subject to national and prefectural laws, ordinances and regulations in Japan with respect to noise and light pollution. In particular, we are subject to the Amusement Business Law, which establishes restrictions on noise and vibration levels in the areas surrounding our pachinko halls.

The Amusement Business Law specifies the acceptable noise levels for certain times of the day. Every pachinko hall must also ensure that the noise levels in the area surrounding the hall do not exceed any limits set by their respective prefectural ordinances. See "Laws and Regulations — Environmental regulations" for further information on laws regulating noise and vibration. Each machine must be set to a specified noise level, and special doors and/or windows are installed at hall entrances to minimise the noise that escapes from the hall. At *Shinrai no Mori* halls, we install additional soundproofing equipment such as sound-insulating materials on the ceilings and a "personal system" of individual jet counters at each machine in order to further reduce the noise level.

During the Relevant Period and as at the Latest Practicable Date, there have been no material violations of the environmental regulations applicable to our operations, all the required permits and environmental approvals for construction have been obtained, and there have been no administrative penalties imposed upon our Group as a result of violation of environmental rules and regulations. Our Japan Legal Adviser is of the opinion that our Group complies with Japanese regulations and environmental rules and regulations applicable to it.

PROPERTIES AND FACILITIES

Overview of property interests

Our core business is operating pachinko halls. Over 85% of the space within our property portfolio is being used as pachinko halls. As at 30 June 2012, we owned and rented 361 pachinko halls of which two are permanently closed. One hall was closed due to lower than expected operating profits. The other hall temporarily suspended operations, and subsequently permanently closed, due to its close proximity to another of our halls which had resulted in losses to both halls. We currently have no concrete plans for these two properties, but these two halls have ceased operations and plans for their future use are under review. The remaining 359 pachinko halls have a total gross floor area of approximately 459,553 sq.m. (the "Hall Operation Area"). Of these, 355 were occupied and operated by us and four were leased out to third party pachinko operators.

We also have, as supporting and back up facilities, 22 office locations, 14 distribution centres, three training centres and other property interests, including residential accommodations, taking our entire property portfolio to a total of 414 properties with a total gross floor area of approximately 518,102 sq.m. throughout Japan. We have 100% attributable interest in our Group's property portfolio. We are not aware of any environmental issues, title defects or litigation liabilities with respect to any of our Group's properties. We do not have any plans for disposal, construction or conversion of use for any of our Group's properties in the near future.

The Hong Kong dollar amounts in this section are translated at the rate of ¥10.29 to HK$1.00, which was the exchange rate prevailing on 29 June 2012 (i.e. the last business day in June 2012).

Pachinko halls

We have 359 pachinko halls in 46 of 47 prefectures throughout Japan, excepting only Okinawa. Most of them are located in rural areas alongside arterial roads with roadside retail outlets and equipped with large scale parking lots. Our pachinko halls in Tokyo are the primary exceptions to our general rural pachinko hall model. Our pachinko halls in the Tokyo metropolitan area are located in vibrant station-front commercial areas with medium and high-rise commercial buildings. Thirty-seven of our pachinko halls are subject to five mortgages for various amounts ranging from ¥1 billion (equivalent to approximately HK$97 million) to ¥2.4

billion (equivalent to approximately HK$233 million), for a total amount of ¥8 billion (equivalent to approximately HK$777 million). Our other pachinko halls are not the subject of any mortgage or other security interest.

Offices

We have 22 offices throughout Japan. They are mainly located in prefecture capitals or cities of equivalent scale, and are located in commercial office areas that are within walking distance from their nearest stations. Our offices are not the subject of any mortgage or other security interest.

Distribution centres

We have 14 distribution centres located throughout Japan. They are mainly in rural areas and are located in areas of logistics centres and business facilities with good accessibility to major expressways and arterial roads. Our distribution centres are not the subject of any mortgage or other security interest.

Training centres

We also have three training centres in Japan, one of which is located in the Tokyo residential area interspersed with detached houses and low-rise apartment buildings. The other two training centres are located in quiet rural areas with recreational facilities, holiday houses, and golf courses in the neighbourhood. Our training centres are not the subject of any mortgage or other security interest.

Vacant land

We own three pieces of vacant land in rural areas of Japan. The area surrounding the vacant land primarily consists of rice fields and wild fields. Our vacant lands are not the subject of any mortgage or other security interest.

Others

Our 13 other properties comprise two closed pachinko halls with re-positioning being reviewed, four residential and six retail premises and one garage which are all owned by our Group. These properties are not the subject of any mortgage or other security interest. We own and occupy our residential and garage properties which are located in residential districts of the eastern part of Tokyo where detached houses and apartment buildings are prevalent.

The six owned retail properties are currently let to third parties who operate them as convenience stores, sushi restaurants or mobile phone retail outlets. All retail properties are located adjacent to our pachinko halls in the rural areas.

Of our properties, 363 are owned and 51 are rented. Amongst our owned properties, 347 are occupied by us for our own use or operations, three are vacant land parcels, two are closed for re-positioning and 11 are investment properties leased to third parties.

BUSINESS

The following tables set forth a summary of our portfolio at 30 June 2012:

Owned properties occupied by our Group	Quantity		Gross Floor Area (sq.m.)		Approximate size range (sq.m.)	Year of completion
Pachinko halls[1]	325	92.3%	403,007	91.6%	563–11,203	1980–2011
Offices	2	0.6%	4,082	0.9%	415–3,667	2001–2008
Distribution centres	13	3.7%	22,709	5.2%	1,581–1,841	1985–2008
Training centres	2	0.6%	6,672	1.5%	139–6,533	1997–2001
Vacant land	3	0.9%	—+	—	3,533–60,404+	—
Others	7	1.9%	3,313	0.8%	41–1,124	1964–2007
Subtotal	352	100.0%	439,783	100.0%		

Owned properties held for investment	Quantity		Gross Floor Area (sq.m.)		Approximate size range (sq.m.)	Year of completion
Pachinko halls[2]	4	36.4%	4,678	59.1%	979–1,252	1994–2005
Distribution centre	1	9.1%	1,326	16.8%	1,326	1997
Others	6	54.5%	1,906	24.1%	132–793	1998–2009
	11	100.0%	7,910	100.0%		

Rented properties	Quantity		Gross Floor Area (sq.m.)		Approximate size range (sq.m.)	Year of completion
Pachinko halls[1]	30	58.8%	51,868	73.7%	308–6,104	1984–2008
Offices	20	39.2%	6,906	9.8%	130–1,864	1985–2000's
Training centre	1	2.0%	11,635	16.5%	11,635	1977
Subtotal	51	100.0%	70,409	100.0%		

(1) All 355 pachinko halls were operated by us.
(2) All four pachinko halls were operated by Independent Third Parties.

Summary	Quantity		Gross Floor Area (sq.m.)		Approximate size range (sq.m.)	Year of completion
Pachinko halls	359 [1]	86.7%	459,553	88.7%	308–11,203	1980–2011
Offices	22	5.3%	10,988	2.1%	130–3,667	1985–2008
Distribution centres	14	3.4%	24,035	4.6%	1,326–1,841	1985–2008
Training centres	3	0.7%	18,307	3.5%	139–11,635	1977–2001
Vacant land	3	0.7%	—+	—	3,533–60,404+	—
Others	13	3.2%	5,219	1.1%	41–1,124	1964–2009
Total	**414**	**100.0%**	**518,102**	**100.0%**		

+ There are no buildings on the vacant land parcels and therefore they have no gross floor area. The site area of the vacant land is 71,639 sq.m.

(1) Out of the 359 pachinko halls, 355 were operated by us; four were operated by Independent Third Parties.

We currently receive a total monthly rent of approximately ¥28.3 million (equivalent to approximately HK$2.8 million) from the 11 properties held for investment, and we currently pay a total monthly rent of approximately ¥143.3 million (equivalent to approximately HK$13.9 million) for the 51 rented properties.

All of our property interests of property activities are wholly-owned by our Group. Set out below is a summary of our property interests of property activities prepared in accordance with Appendix 26 of the [●]:

Properties held for investment[1]	Gross Floor Area (sq.m.)	Quantity	Attributable interests to our Group	Range of year of leasehold expiry	Range of year of completion	Occupancy rate	Range of effective rent (per month)		Attributable market valuation as at 30 June 2012 *(in millions)*	
							¥	*HK$*	¥	*HK$*
Pachinko halls	4,678	4	100%	2023–2027	1994–2005	100% let out	3,813,000–5,544,000	370,553–538,776	692	67
Distribution centres	1,326	1	100%	2017	1997	100% let out	600,000	58,309	0	0
Others (retail)	1,906	6	100%	2021–2026	1998–2009	100% let out	380,289-5,000,000	36,957–485,909	352.5	34.3
	7,910	**11**					**28,312,062**	**2,751,415**	**1,044.5**	**101.3**

(1) Save for one retail property interest which is freehold, all other retail property interests held for investment are expiring during the period from 2021 to 2026.

Exempt property interests

Pursuant to certain rules and regulations, exempt property interests are not required to be the subject of a valuation report set out in a document. Whether a property interest is exempt depends on its carrying amount being below, in the case of property interests of non-property activities, 15% of total assets, and in the case of property interests of property activities, 1% of total assets (assuming they together do not exceed 10% of our Group's total assets). Operating leases are also exempt.

Our Directors have considered the requirements under [●] when assessing whether any of our property interests is subject to the requirement to be set out in a valuation report in the this document.

Our Directors confirmed that, as at 30 June 2012, the latest audited consolidated balance sheet date, (i) the aggregate carrying amount of each of our property interests of property activities with a carrying amount of less than 1% of our total assets does not exceed 10% of our total assets in compliance with [●]; and (ii) each of our property interests of non-property activities has a carrying amount of less than 15% of our total assets in compliance with [●] Carrying amounts were determined on the basis of the amounts reflected in our assets register.

As at 30 June 2012, our Directors confirm, pursuant to [●], that no single property interest of our Group's non-property activities has a carrying amount of 15% or more of our total assets.

As at the Latest Practicable Date, our Directors confirm that no single property interest of our Group is material to our Group's total assets, and none of our property interests is individually material to us in terms of turnover contribution or rental expenses.

Accordingly, all of our Group's property interests are exempt from the requirement to be set out in a valuation report in this document.

BUSINESS

The following table sets forth the numbers of our Group's property interests by the categories under the [●].

	Halls	Offices	Distribution Centres	Training Centres	Vacant Land	Others
			(number of properties)			
Properties of non-property activities (excluding operating leases)	325	2	13	2	3	7
Properties of property activities	4	—	1	—	—	6
Operating leases	30	20	—	1	—	—
	359	22	14	3	3	13

The following table sets forth the market values of our Group's property interests by the categories under the [●].

	Halls		Offices		Distribution Centres		Training Centres		Vacant Land		Others	
					(in millions)							
	¥	*HK$*	¥	*HK$*	¥	*HK$*	¥	*HK$*	¥	*HK$*	¥	*HK$*
Properties of non-property activities (excluding operating leases)	61,194	5,947	1,263	123	2,771	269	314	31	82	8	753	73
Properties of property activities	692	67	—	—	—	—	—	—	—	—	353	34
Operating leases	—	—	—	—	—	—	—	—	—	—	—	—
	61,886	6,014	1,263	123	2,771	269	314	31	82	8	1,106	107

According to the independent property valuer, the total market value of our property portfolio was ¥67.42 billion (equivalent to approximately HK$6,552 million) as at 30 June 2012. Pachinko halls constituted approximately 92% of the total value, while distribution centres comprised the second largest portion, accounting for approximately 4% of the total value.

As at 30 June 2012, we operated 355 pachinko halls in 46 prefectures throughout Japan. We either own or rent the land on which our pachinko halls are located, and either lease or construct (and therefore own) the buildings that house the pachinko operations. The gross floor area for all the land owned or leased by us on which our operating pachinko halls are located comprise approximately 454,876 sq.m. throughout Japan. 299 locations, representing approximately 84% of this gross floor area, are on rented land. We have 15 leases expiring prior to and including 2017, 86 leases expiring between 2018 and 2022 (inclusive), and 198 expire after 2022.

The gross floor area for all the buildings owned or rented by us that house our 355 operating pachinko operations comprise approximately 454,876 sq.m. throughout Japan. 30 buildings, representing approximately 11.4% of this gross floor area, are rented, and the remaining 325 buildings were constructed by us. Under the Civil Code and the Leases Act and in accordance with the terms of our lease agreements, while the lessor owns the title of the land we lease, we own the title of the premises we constructed on such land. Our Japan Legal Adviser has confirmed that this arrangement of title ownership is in compliance with the Civil Code, the Leases Act and all applicable laws and regulations in Japan.

We are required pursuant to the terms of our lease agreements to return the land to the lessor in its original condition as a vacant site upon expiration or termination of the lease. Thus, if we do not renew all of our leases, we will be required to demolish the 269 pachinko halls that we have constructed on the parcels of land we have leased, as at 30 June 2012, as and when each such lease expires. During the Relevant Period, we did not have any significant difficulty in securing locations for our new pachinko halls, nor did we fail to renew any of our lease agreements for pachinko hall sites. See "Risk Factors — Risks Relating to Our Business — We may not be able to renew leases or other contractual arrangements for the use of existing pachinko hall space, or to obtain desirable sites for the expansion of our operations, on satisfactory terms or at all".

The following table reflects our property interests in the land and building for the pachinko halls we operated as at 30 June 2012:

	Own building and own land		**Rent building and rent land**		**Own building and rent land**	
	(number of halls, percentage of total 355 properties)					
Traditional	32	9.0%	15	4.2%	136	38.3%
Yuttari Kan	24	6.8%	9	2.5%	95	26.8%
Shinrai no Mori	—	—	6	1.7%	38	10.7%
Total	56	15.8%	30	8.4%	269	75.8%

The lease contracts for our pachinko halls operated on leased land consist of two types, namely (1) fixed term lease contract and (2) standard lease contract.

In a fixed term lease contract, the lessee must return the land as a vacant lot upon expiry of the lease contract. The lessee under a standard lease contract enjoys security of tenure because the contract may be automatically renewed unless the lessor has justifiable reasons for re-entry upon expiry of the lease contract.

The earliest expiration date of the land lease contracts for the 269 operated pachinko halls is in 2015 while the latest expiration date is in 2033. The table below summarises the type of lease contracts for those 269 operated pachinko halls.

		Quantity		
Type	**Year of expiry of land lease contract**	**Fixed term lease**	**Standard lease**	**Sub-total**
Traditional	By 2015	1	—	1
	2016–2020	17	2	19
	2021–2025	97	—	97
	2026–2030	13	3	16
	2031–2035	2	1	3
Yuttari Kan	By 2015	1	1	2
	2016–2020	5	1	6
	2021–2025	70	1	71
	2026–2030	13	1	14
	2031–2035	2	—	2
Shinrai no Mori	By 2015	—	—	—
	2016–2020	1	—	1
	2021–2025	—	—	—
	2026–2030	37	—	37
	2031–2035	—	—	—
Sub-total	By 2015	2	1	3
	2016–2020	23	3	26
	2021–2025	167	1	168
	2026–2030	63	4	67
	2031–2035	4	1	5
Total		**259**	**10**	**269**

In the event the land lease contracts are not renewed, we are required to demolish the buildings located on the land and return the land in its original condition to the lessor. We estimate that the demolition costs of those buildings range from ¥12,000 to ¥20,000 per sq.m. gross floor area excluding other costs.

INTELLECTUAL PROPERTY

Our Group's brand names, particularly our traditional *DYNAM* brand as well as our *Yuttari Kan* and *Shinrai no Mori* brands, are valuable assets for our Company and operations.

As at the Latest Practicable Date, our Group had 100 registered trademarks in Japan and 28 pending trademark applications in Japan, Hong Kong and the PRC. Our registered trademarks mainly relate to our pachinko operations. We hold seven patents and have two pending patent applications, for various hall equipment used in our pachinko operations. We hold nine design rights and one utility model right relating to various equipment used in our pachinko operations. Also, we own 14 domain names and three copyrights.

During the Relevant Period, all of our Group's pachinko halls in Japan are operated under the trademarks of ダイナム, ダイナムゆったり館, , , ゆったり館, キャビンプラザ CABIN PLAZA, 信頼の森, , , やすみ時間 and . These trademarks have been registered by our Group in Japan and are each valid for ten years from the date of registration. The trademarks have commencement dates ranging from June 2007 to June 2010 and will expire between June 2017 and June 2020. These trademarks are of material importance to our business operations, financial position and prospects. As at the Latest Practicable Date, our Japan Legal Adviser has confirmed that we own and have valid and enforceable rights to use our intellectual property rights as set forth

here. Please refer to the paragraphs headed "Statutory and General Information — Our material intellectual property rights" in Appendix V to this document for details of intellectual property rights that are material to our business.

INSURANCE

We maintain fire insurance for our pachinko halls and operating properties from fire damage; movable property insurance, which insures our general prizes and G-prizes from theft and burglary; and public liability insurance for third party physical injuries and property damages. Each such policy has customary exclusions. We plan to purchase similar policies for our future properties. See also "Risk Factors — Risks Relating to Our Business — Our insurance coverage may not be adequate to cover all possible operational losses that we could suffer. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future".

We believe that our insurance coverage is consistent with industry and regional practice and is adequate for our business operations. From time to time, we review and assess our risks and adjust our insurance coverage as appropriate.

Losses from the Great East Japan Earthquake

For the years ended 31 March 2011 and 2012, we recorded earthquake losses of approximately ¥195 million and ¥979 million (equivalent to approximately HK$92 million), respectively, as a result of the Great East Japan Earthquake. However, as is consistent with general business and industry practices in Japan, we have not carried, and currently do not carry, earthquake insurance.

LEGAL PROCEEDINGS AND COMPLIANCE

From time to time, we and our subsidiaries have been involved in legal proceedings or other disputes in the ordinary course of our business which are primarily disputes with our customers, suppliers and employees, and we have not incurred significant legal costs and expenses in connection with these legal proceedings. During the Relevant Period and up to the Latest Practicable Date, we have not been the subject of any administrative proceedings and have not been imposed any fines or penalties by regulatory authorities. During the Relevant Period and up to the Latest Practicable Date none of our Directors or senior management have been, or are, the subject of any regulatory inquiry or investigation in Japan. Other than one incident in 2005, we have also been, and currently are, in compliance with all applicable laws, rules and regulations. See "Internal Controls and Anti-Money Laundering — Overall Internal Control Compliance". We are not aware of any material legal or administrative proceedings, claims or disputes currently pending or threatened against us. Neither we, nor our Directors have been a party to any material legal or administrative proceeding during the Relevant Period.

During the Relevant Period and up to the Latest Practicable Date, our Company was in compliance with any and all conditions imposed on it under licences granted by the relevant Prefectural Public Safety Commission. The Public Safety Commission has not imposed any non-standard conditions on or cancelled any of the licenses held by the Group. During the Relevant Period and up to the Latest Practicable Date, none of our pachinko hall operations have been suspended due to violations of the Amusement Business Law or other applicable laws and regulations.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

We employ internal controls and procedures designed to help ensure that our pachinko operations are conducted in a professional manner and in compliance with the Amusement Business Law, as enforced by the National Public Safety Commission, and any applicable laws and regulations in Japan. Our internal control measures enable us to detect irregularities and unusual activity or trends in the transactions that take place in our pachinko halls which, if detected, are reported to our senior management for investigation and remediation. In addition, our hall staff are trained to detect irregular customer activities, particularly those involving large amounts of cash. Because (1) pachinko ball and pachislot token dispensers are only able to release a maximum of approximately 750 pachinko balls or 600 pachislot tokens per minute due to inherent mechanical limitations, (2) the value of balls shot into the playing field is limited by regulations to ¥400 per minute, and (3) payout ratios are also limited by regulations, money-laundering is difficult to carry out through pachinko operations. Furthermore, like all pachinko operators in Japan, we are subject to on-site oversight by the Prefectural Public Safety Commission. See "Laws and Regulations" for more information regarding the regulations to which we are subject.

INTERNAL CONTROLS RELATING TO PACHINKO OPERATIONS

Our Internal Control Framework

Our pachinko operations are subject to risk of loss resulting from employee or patron dishonesty. Minimising these risks requires the development of procedures that can control the authorisation, accountability and safekeeping of pachinko balls, cash and pachinko-related equipment, such as pachinko machines and IC card machines. We have implemented a system designed to detect cheating and other manipulation, which includes a surveillance system and an internal audit team of 44 employees who are responsible for hall and department operational audits, as described below. Prevention and investigation of fraud and cheating in our pachinko halls are primarily carried out by our hall operations staff with the cooperation of our internal audit team. To ensure integrity of operations and compliance with operational policies and procedures, our internal audit team operates independently from all other operational departments, and none of the audit team members are, in the absence of special circumstances, allowed to audit departments which they previously held responsibilities in.

Fraud Prevention and Detection Measures

We also employ measures in our pachinko operations to prevent and detect potential fraud, cheating or counterfeiting activities. These methods include the use of note machines and IC card machines, provided by Mars, in each pachinko hall which detect and reject any counterfeit bank notes inserted. Each of our pachinko balls and pachislot tokens feature a "*DYNAM*" stamp embedded by the manufacturer. Access to the operations centre of each pachinko hall is safeguarded with the use of physical access controls, such as digital combination locks. To ensure that no balls or tokens are brought into or taken out of our pachinko halls, the entrances of our pachinko halls are monitored by hall staff. Our hall staff also ensure that pachinko balls and pachislot tokens are not carried across islands with different cost machines.

Hall Management System

Our Hall Management System, provided by Mars, captures data regarding the number of pachinko balls and pachislot tokens played and paid out at each machine. At the end of each day, if the balance of the unused balls or tokens and the balls and tokens collected by customers do not reconcile with the number redeemed, management will carry out an investigation on any discrepancies which involve more than a certain number of balls or tokens, which may vary depending on the number of machines in the relevant hall.

Machine Detection Equipment and Anti-Modification Controls

Our pachinko and pachislot machines are all equipped with detectors that trigger our surveillance cameras to zoom in on the relevant machine if the machine is opened. This in turn triggers an alarm in the handheld transceiver carried by hall staff, upon which the nearest staff member investigates the situation. In this way, we are able to detect and prevent any attempts to open the machines and tamper with the pin adjustments or otherwise illegally manipulate the machines. The same controls are implemented with respect to our IC card machines.

Our hall staff are responsible for daily tasks related to machine maintenance, such as cleaning. However, our staff are prohibited from performing any maintenance on a machine that results in a modification of its systems, electronic components, payout ratios, or any other changes affecting machine function. Such adjustments are made by machine manufacturers with the requisite certification from regulatory authorities and subject to regulatory approval after that adjustment or modification is made; however, the hall managers are authorised to check and make daily adjustments to the pachinko machines in order to ensure continued compliance with relevant regulations.

Hall Staff and Internal Audit Team

Our pachinko staff and internal audit team are trained in cheating detection techniques. Our hall staff are required to regularly patrol the hall to monitor our machines and equipment for alerts and errors, customer traffic inside the halls, and certain customer behaviours that may be indicative of fraudulent acts, and to report any perceived irregularities to the hall manager. Our hall managers (Store Managers and Assistant Managers) rotate to different pachinko halls in order to minimise risk of wrongdoing and/or collusion. As at 31 March 2012, our internal audit team was comprised of 44 members. Each of our pachinko halls is subject to inspection at least once every two months. Further, in order to ensure the effectiveness of the internal audits, our audit team rotates responsibilities so that no auditor inspects a particular hall for two consecutive months or no more than three times every six months. These inspections are conducted pursuant to a standard checklist and independent of our hall staff to help ensure that game integrity has not been compromised and to help prevent collusion among staff.

Cooperation with Police

We work closely with officers of the prefectural police agency. If a member of our staff identifies suspicious activity which may constitute a crime, we will report such activity to the local police for further investigation. Our Group halls also cooperate within the area to alert and notify other halls of persons suspected of cheating or engaging in other suspicious or illegal activity. Our pachinko halls exchange surveillance photos of such persons to ensure that such persons are not allowed entry into our pachinko halls.

Whistleblowing Hotline

We have set up a "whistleblowing" telephone hotline that enables all of our officers, employees and their relatives to report irregularities or suspected fraud to management. Our whistleblower policy further requires such reporting when any officer or employee becomes aware of any act that would fall within one of the reportable acts specified in our policy. We have engaged an independent lawyer, Mr. Tetsuya Uchida, specifically to act as our "hotline contact" responsible for handling all calls received through this hotline and conducting the appropriate enquiries. Upon receiving a report, Mr. Uchida establishes a special investigation team comprising the general manager of our Legal Department, Mr. Mori, four members of our Internal Audit office, and three members of our Group risk management committee. The special investigation team must then open an investigation and notify the whistleblower of the results of

the investigation and corrective measures taken or, if the investigation is discontinued, the reason for the discontinuation. A written report must be provided to Mr. Mori, who is responsible for reporting up to the relevant department heads as well as to Mr. Kohei SATO, the President of Dynam Co., Ltd. and designated compliance officer, and to our Board of Directors. Our internal control committee, which meets once per month, is also notified at its monthly meetings of any whistleblowing activity, and our Board of Directors is required to notify the relevant authorities upon their knowledge or suspicion of any money-laundering activities. The identities of any whistleblowers are kept confidential absent specific consent otherwise from the whistleblower, and our policy protects any whistleblowers from retaliatory action by the Company.

Three Party System Compliance

As part of our internal control measures, we operate our pachinko business in accordance with the "Three Party System" developed in the pachinko industry in Japan. Under the Three Party System, we and wholesalers of G-prizes enter into lease agreements, pursuant to which we lease to the wholesaler a parcel of land adjacent to the pachinko hall, and purchase agreements, pursuant to which the wholesaler supplies G-prizes to our pachinko halls. Wholesalers and prize buyers agree among themselves for the prize buyer to establish a presence on the property leased by the wholesaler from us, at which property customers may sell their G-prizes for cash. However, in accordance with the requirements of Japanese law and regulations, there is no relationship or connection between personnel, equity holding or other capital relationship or connection or other contract or other agreement between our pachinko halls and prize buyers or wholesalers that gives us or our prize buyers and wholesalers the ability to control the other, whether directly or indirectly. For a further description of the Three Party System, see "Business — Pachinko operations — Three Party System" and "Laws and Regulations".

INTERNAL CONTROLS RELATING TO CASH AND G-PRIZES

Cash and G-prize Handling Measures

We employ stringent internal control measures with respect to the handling of cash and G-prizes at our pachinko halls. Such measures include the following:

- the appointment of a G-prize wholesaler is required to be approved by senior management at our headquarters after background checks are performed. See "Business — Pachinko Operations — Three Party System" for more information on wholesalers and related background checks. We enter into a master agreement with standardized terms and conditions with each of the approved G-prize wholesalers after performing background checks. Our headquarters management staff assigns one approved wholesaler to each of the pachinko halls for G-prize procurement;

- all handling of significant amounts of cash and G-prizes is required to be done by either a Store Manager or an Assistant Manager, and must be done either (i) in the presence of a designated observer or (ii) in a locked room while the activity is recorded by our closed-circuit television surveillance cameras. Handling of cash and G-prizes in the pachinko hall public area is done by hall staff and must be done either (i) after the close of business or (ii) in the presence of an observer;

- all significant amounts of cash for daily use and G-prizes are stored in safe(s) located inside a separate locked "Treasury Room" in the pachinko hall's operations centre. Each safe is locked with a key and combination lock, and access to the Treasury Room is restricted to Store Managers and Assistant Managers;

- a member of the pachinko hall's managerial staff conducts an inventory check of the cash and G-prizes in the safe after the close of business each day, regardless of whether the safe has been accessed during the day, and cross-checks the total against a daily record that is updated each time there is any movement of cash or G-prizes;

- based on the inventory record, a member of the pachinko hall's managerial staff determines the quantity of G-prizes to be purchased in order to replenish the G-prize inventory to an appropriate level within the limit set by the our headquarters on a daily basis. Purchase orders for G-prizes must be approved by the Store Manager or Assistant Manager;

- delivery of G-prizes is required to be taken in the presence of a member of the pachinko hall's managerial staff and a designated observer. A member of the pachinko hall's managerial staff checks the quantity of G-prizes delivered against the purchase order and updates the inventory records and the Prize Management System, to which our headquarters has real-time access. The payment for such deliveries must similarly be handled by these two persons inside the Treasury Room, which is monitored by closed-circuit television surveillance cameras;

- the staff member and the Assistant Manager carry out the physical cash count and must sign off each individual line item on the "Daily Cash Movement & Safe Balance Table", which is then subject to the Store Manager's ultimate approval at the close of each business day;

- the Store Manager provides a daily reconciliation report on the movements in cash and G-prizes to our headquarters for review; and

- our headquarters performs a daily review of the reconciliation reports prepared by each hall and checks the cash movements in the reports against the daily statements provided by the security transportation company.

Cash Management and Collection Guidelines

We have established written guidelines on the maximum amount of cash to be kept at each hall for daily operations. The maximum amounts range from ¥15 million to ¥60 million depending on the size and type of hall. We also contract with a third party security transportation company, Nippon Express (commonly known as "Nittsu"), with respect to cash in excess of the amount necessary for daily operations according to management discretion subject to the maximum limit. Such excess cash is deposited into a secure safe that is located at each of our pachinko halls, which is only accessible for collection by Nittsu. Upon deposit into the safe, a deposit slip is automatically generated, and risk of loss transfers to Nittsu. Nittsu collects the cash from the safe the following business day and transports it to the bank for deposit into our account. We reconcile the actual amounts collected by Nittsu and check it against the amount credited to our bank accounts. We also reconcile the daily sales reports generated from the Mars system's data on collections from pachinko balls, pachislot tokens and pre-paid IC cards to verify the accuracy of the cash balance.

Financial Statement Reconciliation

DYNAM Data is responsible for accounts preparation and our Finance Department reconciles our cash balances with various records. The records of cash deposits to our bank accounts are checked through internet banking on a daily basis and reconciled to our bank-in records. The monthly cash deposits are also reconciled against the daily sales reports

generated by our Sales Management System and data collected by Mars from the machines through our Hall Management System. The accounting entries which record cash bank-ins are subject to approval from designated personnel from DYNAM Data and our Finance Department.

Prize Management System

Our Prize Management System, provided by Mars, keeps up-to-date inventories of our various prizes, including our G-prizes, through our POS system. This enables our Prize Management System to keep up-to-date and accurate inventories, including tracking transactions in which customers exchange pachinko balls or pachislot tokens for prizes. This information is transmitted every 15 minutes from our hall computers to our Prize Management System. In addition, a daily report is issued and reviewed by our headquarters to identify abnormal cash flows or volumes of G-prizes being exchanged at pachinko halls. This system allows us to quickly detect irregularities such as sudden increases in the volume of G-prizes being exchanged, an unusual amount of balls or tokens that are exchanged for prizes without being played, or if spending per pachinko ball exceeds certain benchmarks.

INTERNAL CONTROLS RELATING TO INFORMATION TECHNOLOGY AND COMPUTER SYSTEMS

Our IT department supports several systems which are accessible by authorised employees in order to keep our pachinko operations running smoothly. In order to secure and control our IT systems, we have implemented certain measures, such as:

- access rights to the various systems are assigned to employees based on their designated roles and responsibilities;
- our major systems, including our Machine Management System, Sales Management System and SuperStream-CORE System are password-protected;
- our network is protected by a firewall and anti-virus software, and access is restricted to Dynam employees only; and
- our computing facilities in Ginza, Tokyo, which are provided and managed by a third party service provider, are accessible only by authorised personnel.

To protect our information, we have a comprehensive backup plan in place for critical systems and data. Full backups are performed nightly. In addition, we have established a formal disaster recovery plan in the event that future disasters occur, which includes off-site backup of data. Please refer to the sub-section headed "— Overall Internal Control Compliance" for further information.

INTERNAL CONTROLS ON MONEY LAUNDERING

Because there are strict regulations and mechanical limitations with respect to the number of pachinko balls or pachislot tokens that can be played as well as released by machines, we believe that money laundering is generally not a concern in the pachinko industry. Furthermore, there are currently no anti-money laundering laws or regulations in Japan that are applicable to the pachinko industry. However, we have, in accordance with what we believe to be best practice, put in place various measures and policies designed to detect and prevent money laundering activities in our pachinko operations.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

As part of our AML measures, we have developed an anti-money laundering manual, or AML manual. Our AML manual sets forth:

- the scope of its application, including the laws in Japan and Hong Kong that are relevant to our operations;
- the roles and responsibilities of our Board of Directors, Audit Committee and senior management with respect to the implementation of our AML measures; and
- the framework for our compliance with our AML measures, including our Group risk management committee, our internal audit function and our operational controls, including checklists to follow for pachinko hall staff.

Our AML Framework

Our Board of Directors, Audit Committee and Senior Management

Our Board of Directors is responsible for, among others, overseeing the overall management of compliance risks, including the review and approval of AML measures as well as remediation of any issues that arise. Our Audit Committee ensures the implementation, effectiveness and compliance with relevant laws and regulations of our various AML measures. Our Audit Committee also reviews any internal control issues highlighted by auditors and regulatory authorities, and reports the audit findings to the Board of Directors on a regular basis to highlight any deficiencies in our AML measures and internal control systems. Our senior management develops operational guidelines on AML measures and evaluates the measures for effectiveness on a regular basis.

Our Group risk management committee and Internal Audit Function

Our Group risk management committee is composed of three members, and is headed by Mr. Mori. Mr. Mori also heads a five-member internal control committee. See "Directors and Senior Management — Board Committees — Management strategy meeting". For information on Mr. Mori's background, see "Directors and Senior Management — Senior Management — Mr. Haruhiko MORI". The Group risk management committee is responsible for assessing and evaluating the types of risks faced by us in our operations, including money laundering risks and risks associated with compliance with the Three Party System. The Group risk management committee reviews these risks and the results of our internal audit activities and submits its reports to the Audit Committee once a month. Our internal audit departments report to our Audit Committee on a monthly basis and also to top management (the CEO of our Group and the President of Dynam) so as to ensure that there is more than one channel for reporting any issues that arise related to risks in our operations. As at 31 March 2012, our internal audit function comprised: (1) our Internal Audit office of the Company, comprising four staff, and (2) the Audit Department of Dynam, comprising 40 staff. Our Internal Audit office of the Company and the Audit Department of Dynam carry out the same functions. The Internal Audit office is responsible for the internal audit of those pachinko halls operated by Cabin Plaza, Daikokuten and Okuwa Japan and the Audit Department of Dynam is responsible for the internal audit of those pachinko halls operated by Dynam. As a whole, our internal audit function is required to: (1) conduct periodic independent reviews of our compliance framework and the effectiveness of our AML measures; (2) check and test our compliance with our AML measures; and (3) report any findings to our Audit Committee. Our internal audit function is also responsible for ensuring that our AML measures are in compliance with any developments or changes in AML regulations. For more information on the duties and responsibilities of our Audit Committee,

Group internal control committee and Group risk management committee, see "Directors and Senior Management — Board Committees — Audit Committee" and "Directors and Senior Management — Board Committees — Sub-committees".

Our Operational Controls

In addition to our internal audit activities, we also have in place procedures to monitor and analyse cash flows, which enable us to detect and address any unusual fluctuations in connection with G-prize purchases, cash movement within our pachinko halls, and hall revenue.

In addition to the above procedures, our AML policies require:

- regular assessment of the risks of money laundering in our operations and indicators of suspicious activity;
- a system of procedures and controls designed to detect and report suspicious activities in our operations to our headquarters and relevant authorities;
- annual background checks on all of our business counterparties, which includes a check, with supporting documentation, on their representatives, officers, executive officers and shareholders, to identify and avoid any connections to anti-social forces;
- us to engage a corporate data research agency for any potential wholesaler with whom we intend to conduct transactions exceeding ¥1 million per year;
- wholesalers to deliver written declarations stating that they are independent from the prize buyers with whom they conduct business, and that their shareholders and directors and the prize buyers with whom they conduct business do not have any connections with anti-social forces;
- background checks, including with respect to criminal records, employment history and financial information, on our senior management and potential new management members, to, among other things, identify and avoid any connections to anti-social forces and ensure high standards of integrity;
- our internal audit team to visit and inspect each pachinko hall at least once every two months;
- Store Managers and Assistant Managers to rotate among different pachinko halls to prevent collusion among hall staff;
- use of surveillance cameras to record play or attempted tampering of pachinko and pachislot machines at the pachinko halls;
- regular training and awareness programs to keep staff apprised of and updated on our AML policies, procedures and controls and job-specific information on indicators of suspicious activity;
- continuous monitoring of our various IT systems, including our Prize Management System, Management Information System and our Hall Computers, as well as analysis of various financial and operating data, to monitor and detect unusual fluctuations that may indicate suspicious activity; and

- recording of customer identification information, and notification to our headquarters, in connection with all transactions in which pachinko balls or pachislot tokens totaling ¥500,000 or more are exchanged for prizes (per transaction).

In addition to the framework of our AML measures and our IT systems, our employees are critical to the success of our AML measures. In conjunction with the measures discussed above, our pachinko hall staff are trained to detect unusual activity at our pachinko halls, such as players exchanging balls or tokens into G-prizes without playing the machines. Managers at the pachinko halls are also required to conduct checks of sales per machine and other operational data every three hours during operating hours in order to discover any use of balls or tokens for purposes other than play at the machines. In addition, at the end of each day, each pachinko hall is required to tally the number of pachinko balls or tokens rented, played, collected by customers, and exchanged into prizes. This tally also aids in detection of balls that were exchanged into prizes without being played. Upon discovery of these activities or any other money laundering activities, our staff will refuse to exchange prizes and refund the customer's money. Staff will also prepare incident reports to our headquarters, and will place pictures of "blacklisted" customers on bulletin boards at the pachinko halls. These incident reports are also submitted to the Group risk management committee and are reviewed by our Audit Committee on a monthly basis. Depending on the circumstances, our headquarters may also report incidents to police or other relevant authorities.

Further, inherent mechanical limitations of pachinko, most of which are required under Japanese law and regulations, make money laundering in pachinko difficult. These limitations include:

- performance limitations, under which pachinko ball and pachislot token dispensers are only able to release a maximum of approximately 750 pachinko balls or 600 pachislot tokens per minute;

- the value of balls shot into the playing field is limited by regulations to ¥400 per minute, or ¥240,000 over a ten-hour period;

- payout ratios are limited by regulations; and

- specifications of the pachinko machines as regulated by the National Public Safety Commission, which limit the possible wins or losses from a pachinko machine over a ten-hour period, so that the machine does not release more than twice, or keep more than half, the number of pachinko balls played in a ten-hour period (because player pay-ins are limited to ¥240,000 over a ten-hour period, the maximum value of pachinko balls which can be collected by a pachinko player over a ten-hour period is ¥480,000).

As a result of these mechanical limitations, a lengthy period of time would be required to convert sizable sums of money into balls or tokens, and unusual activity in connection with play or failure to play will be observed and reported by our staff. For a further description of Japanese law and regulations relating to pachinko machines and pachinko operations, see "Laws and Regulations".

PACHINKO TRUSTY BOARD

We are one of the founding members of the Pachinko Trusty Board ("PTB"), an organisation comprised of pachinko operators as well as third party professionals, such as lawyers, accountants and experts in business and corporate governance. PTB's Monitor Committee of third party professional members investigates and evaluates corporate

governance and compliance of pachinko hall operators and provides suggested standards regarding management and operation of pachinko halls. We hope that our involvement with the PTB will raise corporate governance standards and industry standards for the operation of pachinko halls in order to bolster a positive image of pachinko in the community.

Through the work of its various committees of third party professionals and experts, the PTB has developed a set of Pachinko Hall Accounting Standards which is based on generally accepted corporate accounting practices in Japan while taking into consideration the environment and characteristics of pachinko operations. These standards propose methods for the treatment of pachinko ball deposits and pre-paid IC cards, costs of pachinko operations, recording of sales and other items unique to accounting in pachinko operations. PTB also has a set of evaluation standards covering governance, internal controls, legal compliance, labour and employee and internal audit issues. PTB rates its member companies based on these evaluation standards and gives letter ratings which may be published upon request in order to encourage and improve transparency across the industry. Our own internal controls measures take into account concerns raised in the findings and suggested standards of the PTB's Monitor Committee.

OVERALL INTERNAL CONTROL COMPLIANCE

During the Relevant Period and up to the Latest Practicable Date, no counterfeit or altered currency, pachinko balls or pachislot tokens have been detected. During the Relevant Period and up to the Latest Practicable Date, no instances of material fraudulent activity were detected or reported to the prefectural police. However, minor instances of illegal or fraudulent activity of a minor or insignificant nature by customers in our pachinko halls are detected approximately once or twice per month and reported to the prefectural police, such as a customer opening a pachinko machine and attaching a device to the machine that inflates its winning rate, or using a device to emit microwave or radio interference with computerised components of the pachinko machines, or other attempts to play the machine without inserting the required payment. We did not identify any material failure of our anti-cheating and anti-counterfeiting surveillance systems during the Relevant Period and up to the Latest Practicable Date. In the event any failure is identified, we will seek to identify where the system failed, promptly rectify such failing and write off any losses resulting from such failing.

In 2005, we were found to have offered at one of our halls in Sapporo City, Hokkaido some counterfeit luxury goods. Upon our own internal investigation, we discovered that we had on stock over 7,000 counterfeit luxury goods being offered as general prizes. The items were all purchased from one of our general prize suppliers, and we did not know that the items were counterfeit at the time we purchased them. We accepted customer returns of the counterfeit items and exchanged them for other prizes. No litigation arose from this incident whether from customer claims or claims by the brand owners. We were ordered by the Public Safety Commission of Hokkaido to suspend operations at our Sapporo City hall for ten days in February 2006 for violation of the Amusement Business Law. We also discontinued our business relationship with that supplier, and removed all luxury goods that had been purchased from that supplier from all of our pachinko halls. We no longer offer luxury goods as general prizes in our pachinko halls. We have put in place purchase management regulations to oversee our prize purchases. Our purchasing department selects prizes and vendors after conducting appropriate background checks. Orders and deliveries are checked by different employees and our internal audit departments ensure the purchase management regulations are followed throughout this process. For information on background checks, see "Business — Pachinko Operations — Three Party System — Risk management".

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

We engaged an independent third party as our internal control consultants to conduct a review of the management and accounting procedures and internal control environment of the Group, including our anti-money laundering policies and procedures. Our internal control consultant has highlighted in its report dated 28 December 2011, which covers the period from 1 January to 26 December 2011, certain significant and non-significant deficiencies with respect to our internal controls, systems and procedures. The significant deficiencies are summarised in the table below. They have also conducted a follow-up review of the following deficiencies in March 2012 and confirmed that the Company has implemented the remedial actions recommended.

Deficiencies highlighted in our internal control consultant's report dated 28 December 2011	**Recommendations from our internal control consultant**	**Remedial actions**
The Company uses hard disk drives as its main backup media for data from its information systems. There are currently no copies of backup data stored offsite.	Copies of backup data should be stored at offsite locations.	The Company has established a backup centre effective from January 2012. Data backup is automatically performed by backup software at each day end. The Company is planning to perform real-time mirroring for data backup by end of 2012.
The Company is still in the process of establishing a formal Disaster Recovery Plan ("DRP") to deal with potential future disasters.	An adequate and effective DRP should be established according to the needs of the Company and may include, but not limited to, the following areas: • Scope of recovery • Detailed recovery process and procedures • Designated location • Hardware arrangement • Emergency network connections • Staff assignment (e.g., person in-charge, coordinator, necessary technical support) • Internal and external communications • Recovery drill test arrangement Recovery drill test should be carried out on a periodic basis to ensure that the DRP can operate as planned. It should include tests on network connections, application tests on critical functions, tests on program and data recovery. Proper documentation should be maintained on the recovery drill tests carried out, for example, records on the results of the tests and the recovery time.	As of March 2012, the Company has established a formal DRP, which covers major areas such as scope of recovery, detailed recovery procedures, designated location, hardware arrangement, staff assignment, recovery drill test arrangement, etc. A full DRP test was performed by the Company in March 2012. The test did not cover recovery of data not included in the backup from previous day-end, but the Company will include such tests once real time backup is established by end of 2012.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

See “Risk Factors — If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud”, “Risk Factors — Our anti-money laundering policies and compliance with applicable anti-money laundering laws may not be sufficient in preventing the occurrence of money laundering activities at our pachinko halls”.

FINANCIAL INFORMATION

You should read the discussion and analysis set forth in this section in conjunction with our combined financial information for the years ended 31 March 2010, 2011 and 2012, and in each case, together with the accompanying notes set forth in Appendix I — Accountants' Report, and our summary historical combined financial information and operating data included elsewhere in this document. Our combined financial information was prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and our financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we have no control. See "Risk Factors" and "Forward-Looking Statements".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are the second largest operator of pachinko halls in Japan, based on the total value of pachinko balls and pachislot tokens rented in 2010, and the largest in terms of number of halls, according to Yano Research. We have built our pachinko operations over the past 45 years from two halls in one prefecture to 355 halls in 46 prefectures as at 31 March 2012. Given our sizable operations, we believe we are able to achieve economies of scale in our business activities. We have centralised our management, marketing and advertising, and machine and general prize procurement processes to enhance operational and cost efficiencies throughout our operations. Furthermore, our nationwide network has enabled us to transfer machines amongst our pachinko halls in different locations in order to maximise the utilisation of our existing machines and better manage our machine costs, as acquisition of machines forms a significant part of our operating costs.

Our focus has been on promoting the entertainment, instead of gaming, aspect of pachinko. Apart from operating traditional halls, we introduced our *Yuttari Kan* and *Shinrai no Mori* brands in 2007 and 2009, respectively, which include features such as low playing cost pachinko and pachislot machines and, in our *Shinrai no Mori* halls, separate smoking and non-smoking areas and the addition of a "relaxation space" in which customers can socialise. In view of an overall declining trend in the pachinko industry in the recent years, we have been active in distinguishing our branded pachinko halls as venues in which a broader range of customers, such as women, younger players and other non-traditional pachinko customers, can play for entertainment and recreation instead of merely for prizes. We have seen continuous growth in the amount of hall spending by customers in our *Yuttari Kan* and *Shinrai no Mori* halls, as evidenced by the increases in gross pay-ins for these halls for the year ended 31 March 2012 compared with the prior year.

Despite the challenging economic prospects in Japan, we will continue to execute our expansion strategy through building new halls in carefully selected locations as well as strategic acquisitions of smaller scale operators. We also intend to focus on continuing to achieve greater operational efficiency, with the assistance of our comprehensive IT system and through cost controls, in order to maintain our Group's profitability.

As at 31 March 2012, we operated 176 traditional halls, 135 *Yuttari Kan* halls, and 44 *Shinrai no Mori* halls. For the years ended 31 March 2010, 2011 and 2012, our revenue was ¥165,461 million, ¥169,637 million and ¥165,078 million (equivalent to approximately HK$15,515 million), respectively.

The following table sets forth the number and percentage of our traditional, *Yuttari Kan* and *Shinrai no Mori* halls as at the dates indicated:

	As at 31 March					
	2010		2011		2012	
		%		%		%
Traditional	176	*53.2*	176	*50.3*	176	*49.6*
Yuttari Kan	130	*39.3*	132	*37.7*	135	*38.0*
Shinrai no Mori	25	*7.5*	42	*12.0*	44	*12.4*
	331	*100.0*	350	*100.0*	355	*100.0*

Financial Metrics for Our Business

The following are the primary financial metrics key to an understanding of our results of operations:

- **gross pay-ins**, which is the amount received from pachinko balls and pachislot tokens rented to customers less unutilised balls and tokens;
- **gross payouts**, which is the aggregate cost of G-prizes and general prizes exchanged at our halls by our customers;
- **revenue**, which is gross pay-ins less gross payouts;
- **jackpot probability**, which is the probability of hitting the jackpot and releasing additional pachinko balls;
- **payout ratio**, which is the total number of pachinko balls or pachislot tokens released from the machine divided by the total number of balls or tokens played;
- **revenue margin**, which is revenue divided by gross pay-ins;
- **G-prize mark-up**, which is the excess of the monetary value of the number of pachinko balls or pachislot tokens required to collect a G-prize over the cost of the G-prize; and
- **machine utilisation**, which is the number of balls/tokens played per day.

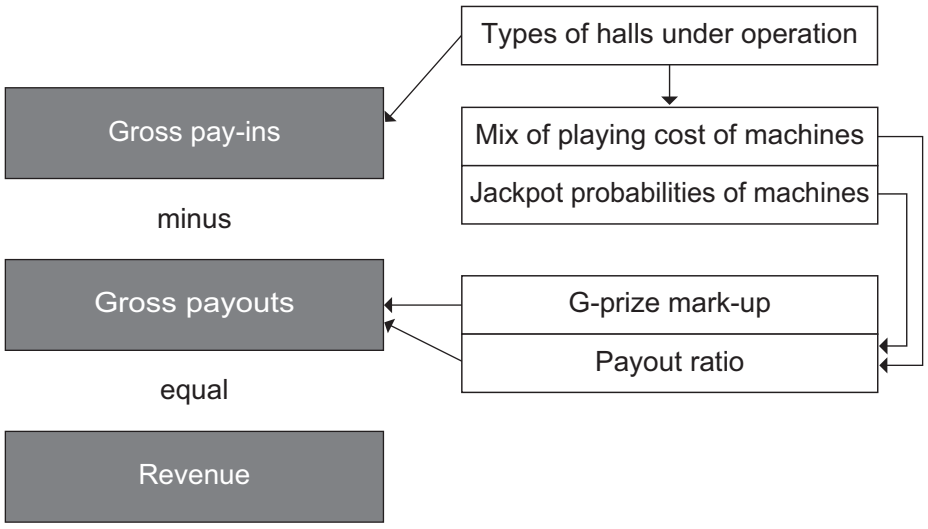
The amount of gross pay-ins is affected by the number of machines and halls in operation and the number and playing time of customers playing the machines. In addition, the amount of gross pay-ins is affected by the types and proportions of machines in the halls and the types of halls. For example, a 1 yen pachinko machine generally generates less gross pay-ins than a 4 yen pachinko machine, assuming other factors are equal and the same playing time.

In turn, because gross payouts is to a large extent determined by payout ratios and G-prize mark-ups, revenue is substantially affected by payout ratio and G-prize mark-ups. The average payout ratio of a hall is affected by the mix of machines with various specifications, which include playing cost (i.e. 1 to 4 yen per ball for pachinko and 5 to 20 yen per token for pachislot), jackpot probability (i.e. 1/100, 1/200, 1/300 and 1/400) and number of balls or tokens won from hitting a jackpot.

As stated above, jackpot probability is the probability, once a player has entered the jackpot mode, of hitting the jackpot and receiving additional pachinko balls. Generally, the jackpot probability is expressed as a fraction, such as 1/100 or 1/400, and the higher the probability of winning a jackpot, the fewer the number of balls or tokens that can be won per jackpot win. The probability of winning a jackpot once a player enters the jackpot mode is part of the built-in program of the pachinko machine and cannot be adjusted by the pachinko operator. However, a pachinko operator is able to acquire pachinko machines with different pre-set jackpot probabilities. As a result, the mix of machines with different jackpot probabilities will also affect our revenue and revenue margin. In general, higher jackpot probabilities result in higher revenue margins as players are able to play machines longer with the same amount of balls or tokens, which increases the machine utilisation and aggregate amount of balls we, as an operator, retain.

Moreover, a low playing cost machine has a higher revenue margin than a high playing cost machine as (i) a low playing cost machine has a lower payout ratio; (ii) pachinko players can spend a longer time at low playing cost machines with similar gross pay-ins than high playing cost machines, leading to a higher machine utilisation; and (iii) we utilise higher G-prize mark-ups for our low playing cost machines.

The following chart illustrates the primary items, as discussed above, that affect gross pay-ins, gross payouts and revenue.



Factors Affecting Results of Operations

The major factors affecting our financial condition and results of operations are set out below.

Proportion of low playing cost machines in our pachinko halls

Because of the stagnation of the Japanese economy and the corresponding decline in the number of and spending by traditional pachinko players, we believe it is critical to broaden our customer base in order to increase overall customer spending in our pachinko halls. As a result, we may occasionally adjust the mix of high playing cost and low playing cost machines among our halls, particularly when opening new halls, in order to maintain customer interest as well as to grow our customer base. We also intend to continue to increase the number of our pachinko

halls, with a particular focus on increasing the relative proportions of our *Yuttari Kan* and *Shinrai no Mori* halls, as the low playing cost machines featured in these hall types help to attract a broader customer base.

We also generally realize higher utilisation rates as well as higher revenue margins, despite lower gross pay-ins, with low playing cost machines due to higher G-prize markups and lower payout ratios associated with these machines as compared to high playing cost machines. Therefore, changes in the proportion of low playing cost machines can impact our results of operations. During the Relevant Period, the percentage of low playing cost machines increased from approximately 52.6% as at 31 March 2010 to approximately 55.5% as at 31 March 2012.

Operational efficiency and cost controls

Hall operating expenses, particularly hall staff costs and pachinko and pachislot machine expenses, form a significant part of our expenses. Through our chain-store operational and management structure, we seek to achieve greater operational efficiency and cost controls through standardisation in the branding and building type of, as well as the equipment and other supplies purchased for use in, our pachinko halls across Japan. One example of cost control measures is our initiative to begin developing and installing our own private brand machines, the production of which we outsource in bulk to manufacturers for cost savings over the average market price of national brand machines. We aim to continue to increase the proportion of private brand machines in our pachinko halls to further reduce our operating costs. Other examples of operational efficiency and cost control measures include our 13 centralised distribution centres to support our machine sourcing functions, redeploying machines within our network and reconfiguring high playing cost machines into low playing cost machines, to reduce our machine expenses, and implementing an inventory ordering system for our general prizes to minimise our spending on working capital. With our chain store operational and management practices, rigorous cost control measures and greater economies of scale in our operations, we aim to continue to lower our per unit hall operating expenses.

The opening of new pachinko halls

Our results of operations are significantly affected by the opening of additional pachinko halls. We intend to build approximately 75 additional pachinko halls over the next three years, primarily *Yuttari Kan* halls but also traditional halls and *Shinrai no Mori* halls. Opening a new hall requires substantial initial capital expenditures for hall construction and for furnishing the hall with necessary equipment and supplies, including pachinko and pachislot machines. Furthermore, it takes time to build up customer traffic and spending, and hence gross pay-ins, in a newly established hall and additional working capital is required to fund the operation before it achieves positive operating cash flows. As a result, controlling costs and finding suitable locations for our new pachinko halls are critical to the success of our expansion strategy. Historically, we have identified suitable locations for and opened new pachinko halls which we then operated under our cost control measures. However, the demographics, levels of disposable income of pachinko customers and the competitive landscape in a particular location for a pachinko hall are subject to change, and are factors beyond our control after the hall is constructed and opened. As a result, our results of operations will be affected by our ability to achieve success in opening new halls, finding suitable locations, building up customer traffic and customer hall spending, and controlling costs.

Pachinko and pachislot machine procurement policy

Pachinko and pachislot machine expenses form a significant part of our expenses. As a result, our expenses will be higher in periods when we purchase more new machines for our halls, which we do to respond to competitive pressures and to attract customers to our halls,

and lower in periods when we purchase less new machines. We also use second-hand machines in our halls, sourced from our operations and third party suppliers, and reconfigure high playing cost machines into low playing cost machines, which allows us to control our machine expenses. Our traditional pachinko halls generally have higher machine expenses per hall than our *Yuttari Kan* and *Shinrai no Mori* halls, reflecting a larger volume of new machine purchases made to attract and retain the frequent players who visit our traditional halls. We primarily purchase new machines for use as high playing cost machines in our traditional pachinko halls, and generally use more second hand machines in our *Yuttari Kan* and *Shinrai no Mori* halls. The second hand machines include high playing cost machines transferred from our traditional halls that are converted to low playing cost machines as well as those from outside sources.

The Japanese economy

We conduct all of our operations in Japan and in each of the fiscal years ended 31 March 2010, 2011 and 2012 derived all of our revenues from the domestic Japanese market. Recent macroeconomic conditions in Japan, as well as significant events such as the global financial crisis in 2008, the debt crisis in Europe and the Great East Japan Earthquake that occurred on 11 March 2011 have, among others, led to a reduction in overall demand by consumers in Japan, and may continue to harm consumer confidence and spending in the leisure market, including the pachinko industry. These conditions have impacted our pachinko operations, including the level of demand for pachinko and pachislot by customers, the availability and prices of pachinko and pachislot machines and other supplies, and the level of our other operating expenses. We have taken a variety of measures in response to these conditions, such as our focus on promoting the entertainment, instead of gaming, aspect of pachinko, through our *Yuttari Kan* and *Shinrai no Mori* pachinko halls. We introduced these hall types in 2007 and 2009, respectively, and they offer, among others, primarily low playing cost pachinko and pachislot games with a wider variety of general prizes. Our development of low playing cost pachinko has allowed us to reach a broader and previously untapped customer base. However, if Japan fails to achieve sustained economic growth in the future, our results of operations may be adversely affected.

Policies and regulations relating to the pachinko industry

Policies and regulations implemented by the Japanese government relating to our industry may significantly affect customer demand and behaviour as well as the various operating metrics that impact our results of operations. For example, a regulation was adopted in 2004 with the aim of de-emphasising the gambling nature of pachislot. The 2004 regulation set a cap on the potential payout value of bonus rounds that could be accumulated. After the end of the phase-in period in 2007, there was a sharp drop in the popularity of pachislot, which adversely impacted the operating results of pachinko operators across the industry, including us. Future regulatory changes may similarly impact our operating results.

Income tax reform

Our income tax expenses were ¥13,086 million, ¥12,285 million and ¥12,506 million (equivalent to approximately HK$1,175 million) for the years ended 31 March 2010, 2011 and 2012, respectively, representing approximately 39.3%, 43.1% and 44.0% of profits before tax for their respective periods. The effective corporate tax rate for our subsidiaries during the Relevant Period ranged from 40.1% to 42.1%. Any changes in the effective corporate tax rate would have a significant impact to our profit for the year.

Under the Tax Reform 2011 announced by The Ministry of Finance of Japan in December 2011, the corporate income tax rate will be cut by 1.95% from 30% to 28.05% for the fiscal years beginning on or after 1 April 2012 to 2014, and further reduced by 2.55% from 28.05% to 25.5% for the fiscal years beginning on or after 1 April 2015. As such, it is expected that our effective corporate tax rate, including the corporate income tax, resident tax and business tax, will be reduced to 38.0% for the fiscal years beginning on or after 1 April 2012 to 2014, and further reduced to 35.6% for the fiscal years beginning on or after 1 April 2015. Please see Note 11 to the Accountants' Report in Appendix I for more information.

Competition

The pachinko industry in Japan is highly fragmented and is characterised by a large number of smaller operators and a small number of large operators. Although there were over 4,000 pachinko hall operators in Japan, as of 2010, only 46 operators had over 20 halls each. Among these 46 larger scale operators, only three, including us, manage over 100 halls and are considered nationwide operators. According to Yano Research, aggregate customer hall spending recorded in 2010 by the top five and top ten hall operators accounted for approximately 20% and 25%, respectively, of the entire market. As a result, our major competitors are large pachinko operators, although we also compete with any pachinko operator in close geographic proximity to our pachinko halls. However, large nationwide pachinko operators, such as ourselves, enjoy cost advantages over small local operators, due to greater economies of scale.

According to Yano Research, during 2010, the number of small scale operators with less than 20 pachinko halls each decreased by 198. On the other hand, the number of operators with over 20 halls each has increased from 42 to 46 during the same period. This reflects the trend of fewer smaller scale operators, with the large scale operators becoming even larger as they leverage their economies of scale. With our advantages in terms of operational history and economies of scale, we believe the present competitive landscape in the pachinko industry will provide us with attractive opportunities to extend the geographic range of our operations and grow our results of operations.

Effect of Great East Japan Earthquake of 11 March 2011

On 11 March 2011, the magnitude 9.0 Great East Japan Earthquake occurred off the eastern coast of Japan and was followed shortly thereafter by a large tsunami that struck a vast swath of Japan's Pacific coast. In the immediate aftermath of the earthquake and tsunami, there was a significant short-term negative impact on the economy. In addition to the initial damage caused by the earthquake and tsunami, the damage to the nuclear power facilities in Fukushima Prefecture resulted in electricity shortages and related rolling blackouts through much of the Tohoku and Kanto regions, which include Tokyo.

As a result of the earthquake and ensuing events, we had to suspend operations at approximately 100 of our pachinko halls due to external and internal damage. Since the earthquake, we have nearly completed restoration and repair work at affected pachinko halls, and as at 7 October 2011, all of our pachinko halls were re-opened. During the years ended 31 March 2011 and 2012, we recorded earthquake losses of approximately ¥195 million and ¥979 million (equivalent to approximately HK$92 million), respectively, which reflected losses for impairment of property, plant and equipment, machine replacement costs, and repairs. The losses due to the Great East Japan Earthquake were recognised when they were actually incurred during the relevant periods.

See "Risk Factors — Our business may be adversely affected by the continuing effects of the Great East Japan Earthquake and ensuing events" for more information. Though we resumed operation of all of our halls affected by the earthquake by 7 October 2011, a total of 150 of our halls in the areas covered by Tokyo Electric Power Company, Inc. and Tohoku Electric Power Co., Ltd. were required to close a certain number of days per month, in rotation, as part of energy conservation measures between 1 July and 30 September 2011.

Description of Components of Results of Operations

Gross pay-ins

Our gross pay-ins represent amounts received from pachinko balls and pachislot tokens rented to customers in our halls less unutilised balls and tokens during the period. Unutilised balls and tokens represent the sum of (i) the value of balls and tokens stored in our membership system and (ii) unutilised value of pre-paid IC cards sold. See "Business — Marketing — Membership system" for information on carrying over balls and tokens, and "Business — Pachinko Operations — The gaming experience" for information on pre-paid IC cards. Our gross pay-ins were ¥862,023 million, ¥859,882 million and ¥908,309 million (equivalent to approximately HK$85,368 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

The following table sets forth a breakdown of the aggregate gross pay-ins by type of hall for the periods indicated.

	Year ended 31 March						
	2010		2011		2012		
	(in millions, except for percentages)						
	¥	*%*	*¥*	*%*	*¥*	*HK$*	*%*
Traditional	759,481	88.1	713,444	83.0	734,245	69,008	80.8
Yuttari Kan	94,318	10.9	116,295	13.5	133,496	12,547	14.7
Shinrai no Mori	8,224	1.0	30,143	3.5	40,568	3,813	4.5
	862,023	100.0	859,882	100.0	908,309	85,368	100.0

The following table sets forth a breakdown of the average gross pay-ins per hall by type of hall for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	*¥*	*¥*	*HK$*
	(in millions)			
Traditional	4,315.2	4,053.7	4,171.8	392.1
Yuttari Kan	725.5	881.0	988.9	92.9
Shinrai no Mori	329.0	717.7	922.0	86.7

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The following table sets forth the movements of our unutilised balls and tokens during the Relevant Period:

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Balance at the beginning of the year	3,038	3,792	4,173	392
Less: forfeiture of unutilised balls and tokens				
— pre-paid IC cards	(269)	(269)	(275)	(26)
— membership cards	(42)	(46)	(57)	(5)
Add: unutilised balls and tokens from prepaid IC cards and membership cards	1,065	696	357	34
Balance at the end of the year	3,792	4,173	4,198	395

Because we allow our customers to use the remaining cash value on their pre-paid IC cards to exchange for pachinko balls or pachislot tokens once within a 20-day period after they purchase the pre-paid IC card, all cash stored on pre-paid IC cards is accounted for under current liabilities during the 20-day period, and unused cash (representing the value of unutilised balls and tokens) stored on pre-paid IC cards is subsequently recognised as income from expiry of pre-paid IC cards upon forfeiture 20 days after purchase of the pre-paid IC card. As at 31 March 2010, 2011 and 2012, cash received by us from pre-paid IC cards represented approximately 2.1%, 2.2% and 2.2%, respectively, of the value of total unutilised balls and tokens.

The following table sets forth the mix of pachinko machines by playing cost for each hall type as at the dates indicated.

	As at 31 March					
Hall type/playing cost	**2010**		**2011**		**2012**	
	(number of machines, except for percentages)					
		%		%		%
Traditional						
Low playing cost[1]	10,701	16.7	13,239	21.1	14,135	22.7
High playing cost[2]	53,363	83.3	49,497	78.9	48,121	77.3
	64,064	100.0	62,736	100.0	62,256	100.0
Yuttari Kan						
Low playing cost[1]	40,547	100.0	40,876	98.7	42,215	99.8
High playing cost[2]	—	—	548	1.3	80	0.2
	40,547	100.0	41,424	100.0	42,295	100.0
Shinrai no Mori						
Low playing cost[1]	8,016	100.0	12,965	97.2	13,645	99.1
High playing cost[2]	—	—	368	2.8	128	0.9
	8,016	100.0	13,333	100.0	13,773	100.0
Total	112,627		117,493		118,324	

(1) Comprises pachinko machines with playing costs of 0.5-yen, 1-yen, 1.25-yen, 2-yen and 2.5-yen.
(2) Comprises pachinko machines with playing costs of 4-yen.

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The following table sets forth the mix of pachislot machines by playing cost for each hall type as at the dates indicated.

	As at 31 March					
Hall type/playing cost	**2010**		**2011**		**2012**	
	(number of machines, except for percentages)					
		%		%		%
Traditional						
Low playing cost[(1)]	218	1.1	538	2.5	498	2.3
High playing cost[(2)]	20,036	98.9	21,092	97.5	21,612	97.7
	20,254	100.0	21,630	100.0	22,110	100.0
Yuttari Kan						
Low playing cost[(1)]	10,496	100.0	11,568	100.0	12,952	100.0
High playing cost[(2)]	—	—	—	—	—	—
	10,496	100.0	11,568	100.0	12,952	100.0
Shinrai no Mori						
Low playing cost[(1)]	1,920	100.0	3,400	98.8	3,800	100.0
High playing cost[(2)]	—	—	40	1.2	—	—
	1,920	100.0	3,440	100.0	3,800	100.0
Total	32,670		36,638		38,862	

(1) Comprises pachislot machines with playing costs of 5-yen, 6.25-yen and 10-yen.
(2) Comprises pachislot machines with playing costs of 20-yen.

During the Relevant Period, our traditional halls contributed over 80% of our total gross pay-ins. During the Relevant Period, over 75% of the pachinko machines in traditional halls were high playing cost 4-yen pachinko games and over 90% of the pachislot machines provided in traditional halls were high playing cost 20-yen pachislot games. For the same periods, in our *Yuttari Kan* halls and *Shinrai no Mori* halls, over 90% of the pachinko and pachislot machines were low playing cost games, which are 0.5-yen to 2.5-yen pachinko games and 5-yen to 10-yen pachislot games.

The following table sets forth the average number of pachinko machines per hall by playing cost for each hall type for the periods indicated.

	Year ended 31 March		
Pachinko machines	**2010**	**2011**	**2012**
	(number of machines)		
Traditional			
Low playing cost	61	75	80
High playing cost	303	281	274
Yuttari Kan			
Low playing cost	312	310	312
High playing cost	—	4	1
Shinrai no Mori			
Low playing cost	321	309	310
High playing cost	—	9	3

The following table sets forth the average number of pachislot machines per hall by playing cost for each hall type for the periods indicated.

	Year ended 31 March		
Pachislot machines	**2010**	**2011**	**2012**
	(number of machines)		
Traditional			
Low playing cost	1	3	3
High playing cost	114	120	123
Yuttari Kan			
Low playing cost	81	88	96
High playing cost	—	—	—
Shinrai no Mori			
Low playing cost	77	81	86
High playing cost	—	1	—

The following table below sets forth the utilisation rate for low and high playing cost pachinko and pachislot machine in our halls for the periods indicated.

	Year ended 31 March		
Pachinko machines[(1)]	**2010**	**2011**	**2012**
Low playing cost	35.1%	35.2%	35.3%
High playing cost	31.4%	27.8%	28.0%

	Year ended 31 March		
Pachislot machines[(2)]	**2010**	**2011**	**2012**
Low playing cost	27.0%	30.8%	31.9%
High playing cost	26.0%	29.0%	30.2%

(1) The pachinko machine utilisation rate was calculated by dividing the average number of balls put into play per day by the maximum number of balls available to be played per day. The maximum number of balls available to be played per day is defined as the maximum number of balls that can be put into play per hour (i.e. 6,000 balls) multiplied by the number of operating hours (i.e. 13.5 hours) per day.

(2) The pachislot machine utilisation rate was calculated by dividing the average number of tokens put into play per day by the maximum number of tokens available to be played per day. The maximum number of tokens available to be played per day is defined as the maximum number of tokens that can be put into play per hour (i.e. 2,634 tokens) multiplied by the number of operating hours (i.e. 13.5 hours) per day.

Gross payouts

Gross payouts, which represents the aggregate cost of G-prizes and general prizes exchanged at our halls by our customers, amounted to ¥696,562 million, ¥690,245 million and ¥743,231 million (equivalent to approximately HK$69,853 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

The following table sets forth the breakdown of our gross payouts by type of hall for the periods indicated.

	Year ended 31 March			
	2010	**2011**	**2012**	
	¥	***¥***	***¥***	***HK$***
	(in millions)			
Traditional	637,641	595,270	623,331	58,584
Yuttari Kan	53,125	73,917	90,574	8,513
Shinrai no Mori	5,796	21,058	29,326	2,756
	696,562	690,245	743,231	69,853

The following table sets forth a breakdown of the average gross payouts per hall by type of hall for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Traditional	3,623.0	3,382.2	3,541.7	332.9
Yuttari Kan	408.7	560.0	670.9	63.1
Shinrai no Mori	231.8	501.4	666.5	62.6

Our gross payouts of G-prizes and general prizes to customers in any given period is to a large extent determined by payout ratios and G-prize mark-ups. The payout ratio in our traditional, *Yuttari Kan* and *Shinrai no Mori* halls is affected by the mix of low playing cost machines and high playing cost machines as well as the different specifications of machines installed in the pachinko halls, such as specifications on the jackpot probability. See "Business — Pachinko Operations — Game performance". In addition, different halls apply different G-prize mark-ups for machines of different playing costs when exchanging G-prizes with customers. Generally, the payout ratios are higher, and the G-prize mark-ups are lower — or more favourable for customers — for high playing cost machines featured in our traditional halls, and payout ratios are lower, and the G-prize mark-ups are higher — or less favourable for customers — for low playing cost machines featured in our *Yuttari Kan* and *Shinrai no Mori* halls. We decide on the mix of machines in each hall according to local preferences based on results of our surveys.

Revenue

Our revenue represents the gross pay-ins, less gross payouts to customers. Our revenue was ¥165,461 million, ¥169,637 million and ¥165,078 million (equivalent to approximately HK$15,515 million) during the years ended 31 March 2010, 2011 and 2012, respectively.

The following table sets forth a breakdown of our revenue by type of hall for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Traditional	121,840	118,174	110,914	10,424
Yuttari Kan	41,193	42,378	42,922	4,034
Shinrai no Mori	2,428	9,085	11,242	1,057
	165,461	169,637	165,078	15,515

Revenue margin

Revenue margin represents revenue divided by gross pay-ins. Our revenue margins are primarily affected by payout ratios, G-prize mark-ups and mix of the pachinko and pachislot machines in our halls. The following table sets forth a breakdown of revenue margin by type of hall for the periods indicated.

	Year ended 31 March		
	2010	2011	2012
Traditional	16.0%	16.6%	15.1%
Yuttari Kan	43.7%	36.4%	32.2%
Shinrai no Mori	29.5%	30.1%	27.7%

Our *Yuttari Kan* and *Shinrai no Mori* halls had higher revenue margins than our traditional halls, mainly because of lower payout ratios and higher G-prize mark-ups generally utilised in those halls for their low playing cost machines.

Other income

Other income primarily comprises commission income from vending machines and in-store sales, which represented 53.5%, 57.8% and 63.3% of total other income for the years ended 31 March 2010, 2011 and 2012, respectively, and rental income, which represented 12.1%, 12.6% and 12.9% of total other income for the years ended 31 March 2010, 2011 and 2012, respectively. These items represent recurring income in our operations. The following table sets forth a breakdown of our other income for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Commission income from vending machines and in-store sales [(1)]	3,690	4,024	4,163	391
Rental income [(2)]	832	877	845	79
Gain on disposals of used-machine [(3)]	462	635	453	43
Income from forfeiture of unutilised balls and tokens [(4)]	311	315	332	31
Reversal of impairment losses on property, plant and equipment [(5)]	—	352	—	—
Dividend income [(6)]	220	231	127	12
Interest income on loan to related companies	35	72	46	4
Bank interest income [(7)]	2	2	1	0.1
Gain on bargain purchase [(8)]	766	—	—	—
Fair value gain on financial assets at fair value through profit or loss	16	—	—	—
Others	564	454	605	57
	6,898	6,962	6,572	617

(1) Commission income from vending machines and in-store sales represents the monthly rental fee paid by the vending machine operators, which set up vending machines in our pachinko halls. Commission income ranges from ¥6,000 to ¥15,000 per machine. We also receive approximately 15.0% to 60.0% of the gross proceeds from these vending machines and in-store sales of food by a related company, Humap.

(2) Rental income represents the income received from leasing of investment properties.

(3) Gain on disposals of used-machines represents the disposal gains upon selling of used pachinko and pachislot machines to second hand dealers and the vendors of the machines.

(4) Income from forfeiture of unutilised balls and tokens represents the income of forfeiture of the balls and money stored in the membership cards and pre-paid IC cards after the expiry date.
(5) Reversal of impairment losses on property, plant and equipment represents the reversal of the impairment losses provided in prior years after we carried out annual impairment assessment of our property, plant and equipment.
(6) Dividend income represents dividends received from the investee companies in which we held their shares as available-for-sale investments.
(7) Bank interest income represents interest earned on bank deposits.
(8) Gain on bargain purchase represents the discount on acquisition of Cabin Plaza and Daikokuten on 1 April 2009 and 1 December 2009, respectively.

Hall operating expenses

Our hall operating expenses include (i) hall staff costs; (ii) pachinko and pachislot machine expenses; (iii) depreciation charges; (iv) rental expenses; (v) advertising expenses; (vi) utilities expenses; (vii) G-prize expenses; (viii) cleaning and ancillary services; (ix) repair and maintenance expenses; and (x) others.

The following table sets forth a breakdown of our hall operating expenses for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Hall staff costs[(1)]	43,094	45,944	46,297	4,351
Pachinko and pachislot machine expenses[(2)]	35,693	41,290	35,739	3,359
Depreciation charges[(3)]	11,399	11,453	10,788	1,014
Rental[(4)]	9,583	10,043	10,166	955
Advertising expenses[(5)]	6,343	7,666	6,265	589
Utilities expenses[(6)]	4,595	4,901	4,716	442
G-prize expenses[(7)]	4,283	4,593	4,831	454
Cleaning and ancillary services[(8)]	4,612	4,228	4,273	402
Repair and maintenance[(9)]	3,136	2,967	3,889	365
Others[(10)]	12,049	11,154	11,821	1,112
	134,787	144,239	138,785	13,043

(1) Hall staff costs represent the salaries, allowances and bonuses paid to the staff working in the pachinko halls as well as personnel at Dynam Advertisement and P Trading.
(2) Pachinko and pachislot machine expenses represent the expenditures incurred in acquiring brand new and second hand pachinko and pachislot machines, which include machines costs, transportation costs and documentation costs. Under our capitalisation policy, pachinko and pachislot machines with useful lives of more than one year are capitalised as property, plant and equipment in our financial statements. However, our pachinko and pachislot machine expenses are generally not capitalised as property, plant and equipment in our financial statements because the average useful lives of the pachinko and pachislot machines are typically less than one year. During the Relevant Period, the average useful life of our machines was 0.84 year, 0.82 year and 0.94 year, respectively. As a result, pachinko and pachislot machine expenses are fully recognised in the income statement at the time of use.
(3) Depreciation charges represent the depreciation charges of our buildings including leasehold improvements, tools and equipment and motor vehicles. The depreciation charges are calculated on a declining balance basis for tools and equipment and motor vehicles and straight-line basis for our buildings including leasehold improvements over their estimated useful lives.
(4) Rental expenses represent the expenses paid for renting the land and buildings for our pachinko operations.
(5) Advertising expenses represent expenditures incurred in connection with our advertising and marketing campaigns.
(6) Utilities expenses represent payments for utilities supplied to our pachinko halls.
(7) G-prize expenses represent the fixed monthly fees paid to G-prize wholesalers.

(8) Cleaning and ancillary services represent the pachinko hall cleaning fees paid to related companies, Humap and Business Partners and external third party service providers. The cleaning fees are comparable to prevailing market rates.
(9) Repair and maintenance expenses represent expenditures incurred for repair and maintenance of our pachinko halls.
(10) Others represent tax on fixed assets, stamp duty, prepaid card expenses and bank charges.

General and administrative expenses

Our general and administrative expenses include (i) staff costs; (ii) rental expenses; (iii) depreciation charges; (iv) cleaning expenses; and (v) others. The following table sets forth a breakdown of our general and administrative expenses for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Staff costs	265	380	951	89
Rental expenses	31	56	83	8
Depreciation charges	1	9	15	1
Cleaning and ancillary services	22	20	24	2
Others	323	469	681	64
	642	934	1,754	164

Our cleaning expenses relate to cleaning fees paid to a related company, Business Partners, in connection with the provision of cleaning services to our headquarters. See "Connected Transactions — Non-Exempt Continuing Connected Transactions Subject to Reporting and Announcement Requirements — Office Cleaning and Ancillary Services". Depreciation charges relate to depreciation of tools and equipment and motor vehicles used in our headquarters. Staff costs relate to salaries, allowances and bonuses paid to administrative staff. Rental expenses relate to the rental expenses paid for leasing of our headquarters. Others mainly relate to communication expenses and office supply expenses.

Other operating expenses

The following table sets forth a breakdown of our other operating expenses for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Loss on disposal of property, plant and equipment [(1)]	207	241	230	22
Impairment loss on property, plant and equipment	421	—	226	21
Impairment loss on available-for-sale investment [(2)]	9	9	1	0.1
Intangible assets written off [(3)]	3	—	94	9
Expenses on investment properties [(4)]	176	131	121	11
Expenses for closed halls [(5)]	11	—	—	—
Fair value loss on convertible bonds [(6)]	—	99	—	—
Net loss on derivative financial instruments [(7)]	214	201	12	1
Rental deposits written off [(8)]	—	—	58	5
Impairment loss on rental deposits	59	46	—	—
Fair value change in investment properties	23	17	21	2
Donation	—	50	—	—
Syndicated loan cancellation fee [(9)]	—	—	44	4
Others	65	19	67	6
	1,188	813	874	81

(1) Loss on disposal of property, plant and equipment represents the disposal loss on building including leasehold improvements, tools and equipment and motor vehicles.

(2) Impairment loss on available-for-sale investment represents the impairment loss arising from the valuation of the available-for-sale investment in Japanese companies.

(3) Intangible assets written off represent the disposal of sales management system, analysis system and gift management system.

(4) Expenses on investment properties represent the electricity paid, land related tax, facility leasing expenses and repair costs incurred in connection with our investment properties.

(5) Expenses for closed halls represent utilities, staff costs and other miscellaneous expenses paid in connection with underperforming pachinko halls that were temporarily closed during the relevant period.

(6) Fair value loss on convertible bonds represents the valuation loss on our convertible bond investment.

(7) Net loss on derivative financial instruments represents the mark to market fair value and loss on settlement of our interest rate swap contracts.

(8) Rental deposits written off represent rental deposits paid to a landlord which have been proven to be irrecoverable.

(9) Syndicated loan cancellation fee represents the handling charge paid for the early settlement of the syndicated loan.

Finance costs

Finance costs primarily include interest expenses on borrowings from related companies, interest expenses on debt securities, finance lease charges, interest on bank loans and syndicated loans and amortisation of bank charges incurred on our syndicated loans. Our finance costs were ¥2,442 million, ¥2,137 million and ¥1,833 million (equivalent to approximately HK$172 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

Income tax expenses

Our income tax expenses primarily include taxes that we pay in Japan and deferred taxation amounts. Deferred tax is recognised on differences between the carrying amounts of assets and liabilities recorded in our financial statements and the corresponding tax bases used in the computation of taxable profit. In Japan, our income tax expenses reflect Japan profit tax rate of approximately 40%, comprising corporate income tax, corporate inhabitant income tax, deductible business tax and additional tax applicable to a Specified Family Company. Our income tax expenses were ¥13,086 million, ¥12,285 million and ¥12,506 million (equivalent to approximately HK$1,175 million) for the years ended 31 March 2010, 2011 and 2012, respectively. Our effective tax rates were 39.3%, 43.1% and 44.0% for the years ended 31 March 2010, 2011 and 2012, respectively. Please see Note 11 to the Accountants' Report set forth in Appendix I for more information.

Basis of presentation

The Company was incorporated under the law of Japan on 20 September 2011. Our principal activity is to act as a holding company of our subsidiaries.

A group reorganisation was carried out, as further detailed under "History, Development and Reorganisation" in this document. The Reorganisation effectively involved the acquisition from DYH of the entire equity interest in each of our subsidiaries, being Dynam, Cabin Plaza, Daikokuten, Okuwa Japan, Dynam Land, Dynam Data, P Trading, Dynam Advertisement, Kanto Daido, Shinrainomori and Shinrainomori Association.

The financial information is prepared as if the current group structure had been in existence throughout the Relevant Period or since their respective dates of incorporation or establishment or effective date of acquisition where this is a shorter period.

Critical Accounting Policies

The preparation of our combined financial statements and related notes requires our management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities in our financial statements. These judgments, estimates and assumptions are based on factors, including historical experience, terms of existing contracts, industry trends, information provided by our suppliers and customers and information available from outside sources as we believe to be appropriate and reasonable. However, by their nature, such judgments, estimates and assumptions are subject to an inherent degree of uncertainty, and therefore actual results could differ materially from our estimates. We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations. We also have other policies that we consider to be key accounting policies, which are set forth in detail in Notes 4 and 5 to the Accountants' Report in Appendix I to this document.

Gross pay-ins and gross payouts

Gross pay-ins represents the amount received from pachinko balls and pachislot tokens rented to customers less unutilised balls and tokens. Gross payouts represents the aggregate cost of G-prizes and general prizes exchanged by customers. Revenue from pachinko and pachislot games represents the gross pay-ins, less gross payouts to customers.

Pachinko and pachislot machine expenses

Pachinko and pachislot machine expenses are recognised in profit or loss when the machine is installed for use in the operation of a pachinko hall.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. We determine the estimated useful lives, residual values and related depreciation charges for our property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. We will revise the depreciation charges where useful lives and residual values are different from those previously estimated, or we write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Changes in these estimates may have a material impact on our results of operations, and are recognised in our income statement in the year in which such changes occur.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis and reducing balance basis. The principal useful lives are as follows:

Freehold land	Not applicable
Buildings including leasehold improvements	2–50 years
Tools and equipment	4–20 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings and structures under construction, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

We assess annually whether property, plant and equipment has any indication of impairment in accordance with our accounting policy. The recoverable amount of property, plant and equipment has been determined based on a value-in-use calculation. This calculation requires the use of judgement and estimates.

FINANCIAL INFORMATION

Review of Historical Results of Operations

The following table sets forth certain information relating to our results of operations:

	Year ended 31 March						
	2010		2011		2012		
	(in millions, except for percentages)						
	¥	*%*	*¥*	*%*	*¥*	*HK$*	*%*
Gross pay-ins	862,023	100.0	859,882	100.0	908,309	85,368	100.0
Less: gross payouts	(696,562)	(80.8)	(690,245)	(80.3)	(743,231)	(69,853)	(81.8)
Revenue	165,461	19.2	169,637	19.7	165,078	15,515	18.2
Other income	6,898	0.8	6,962	0.8	6,572	617	0.7
Hall operating expenses	(134,787)	(15.6)	(144,239)	(16.8)	(138,785)	(13,043)	(15.3)
General and administrative expenses	(642)	(0.1)	(934)	(0.1)	(1,754)	(164)	(0.2)
Other operating expenses	(1,188)	(0.1)	(813)	(0.1)	(874)	(81)	(0.1)
Profit from operations	35,742	4.1	30,613	3.6	30,237	2,844	3.3
Finance costs	(2,442)	(0.3)	(2,137)	(0.2)	(1,833)	(172)	(0.2)
Profit before tax	33,300	3.9	28,476	3.3	28,404	2,672	3.1
Income tax expenses	(13,086)	(1.5)	(12,285)	(1.4)	(12,506)	(1,175)	(1.4)
Profit for the year attributable to owners of the Company	20,214	2.3	16,191	1.9	15,898	1,497	1.8

Discussion of Results of Operations

Year ended 31 March 2012 compared to the year ended 31 March 2011

Gross pay-ins

Our gross pay-ins increased by ¥48,427 million (equivalent to approximately HK$4,551 million), or 5.6%, from ¥859,882 million for the year ended 31 March 2011 to ¥908,309 million (equivalent to approximately HK$85,368 million) for the year ended 31 March 2012.

Traditional halls. Gross pay-ins for traditional halls increased by ¥20,801 million (equivalent to approximately HK$1,955 million), or 2.9%, from ¥713,444 million for the year ended 31 March 2011 to ¥734,245 million (equivalent to approximately HK$69,008 million) for the year ended 31 March 2012. The average gross pay-ins per traditional hall increased by ¥118.1 million (equivalent to approximately HK$11.1 million), or 2.9%, from ¥4,053.7 million for the year ended 31 March 2011 to ¥4,171.8 million (equivalent to approximately HK$392.1 million) for the year ended 31 March 2012. The increase was primarily due to the modest increase in utilisation rates of our high playing cost machines.

Yuttari Kan halls. Gross pay-ins for *Yuttari Kan* halls increased by ¥17,201 million (equivalent to approximately HK$1,617 million), or 14.8%, from ¥116,295 million for the year ended 31 March 2011 to ¥133,496 million (equivalent to approximately HK$12,547 million) for the year ended 31 March 2012. We established three new additional *Yuttari Kan* halls during the year. Average gross pay-ins per hall increased by 12.2%, from ¥881.0 million for the year ended 31 March 2011 to ¥988.9 million (equivalent to approximately HK$92.9 million) for the year ended 31 March 2012, which reflected the increasing popularity in the market of our low playing cost, entertainment oriented strategy.

Shinrai no Mori halls. Gross pay-ins for *Shinrai no Mori* halls increased by ¥10,425 million (equivalent to approximately HK$980 million), or 34.6%, from ¥30,143 million for the year ended 31 March 2011 to ¥40,568 million (equivalent to approximately HK$3,813 million) for the year ended 31 March 2012. Two new *Shinrai no Mori* halls were added during the year. Average gross pay-ins per hall increased by 28.5%, from ¥717.7 million for the year ended 31 March

2011 to ¥922.0 million (equivalent to approximately HK$86.7 million) for the year ended 31 March 2012 which reflected the continuing increase in popularity of halls with a non-smoking environment and low playing cost machines.

Gross payouts

Our gross payouts increased by ¥52,986 million (equivalent to approximately HK$4,980 million), or 7.7%, from ¥690,245 million for the year ended 31 March 2011 to ¥743,231 million (equivalent to approximately HK$69,853 million) for the year ended 31 March 2012 against a 5.6% increase in our gross pay-ins. The increase was primarily due to reduced G-prize mark-ups in our traditional, *Yuttari Kan* and *Shinrai no Mori* halls as part of our strategy to enhance our competitiveness to increase our market share.

Traditional halls. Gross payouts for traditional halls increased by ¥28,061 million (equivalent to approximately HK$2,637 million), or 4.7%, from ¥595,270 million for the year ended 31 March 2011 to ¥623,331 million (equivalent to approximately HK$58,584 million) for the year ended 31 March 2012.

Yuttari Kan halls. Gross payouts for *Yuttari Kan* halls increased by ¥16,657 million (equivalent to approximately HK$1,566 million), or 22.5%, from ¥73,917 million for the year ended 31 March 2011 to ¥90,574 million (equivalent to approximately HK$8,513 million) for the year ended 31 March 2012.

Shinrai no Mori halls. Gross payouts for *Shinrai no Mori* halls increased by ¥8,268 million (equivalent to approximately HK$777 million), or 39.3%, from ¥21,058 million for the year ended 31 March 2011 to ¥29,326 million (equivalent to approximately HK$2,756 million) for the year ended 31 March 2012.

Revenue and revenue margin

Revenue decreased by ¥4,559 million (equivalent to approximately HK$428 million), or 2.7%, from ¥169,637 million for the year ended 31 March 2011 to ¥165,078 million (equivalent to approximately HK$15,515 million) for the year ended 31 March 2012.

Traditional halls. Revenue for traditional halls decreased by ¥7,260 million (equivalent to approximately HK$682 million), or 6.1%, from ¥118,174 million for the year ended 31 March 2011 to ¥110,914 million (equivalent to approximately HK$10,424 million) for the year ended 31 March 2012. The decrease was due primarily to an increase in gross payouts over the period. Revenue margin decreased from 16.6% to 15.1%.

Yuttari Kan halls. Revenue for *Yuttari Kan* halls slightly decreased by ¥544 million (equivalent to approximately HK$51 million), or 1.3%, from ¥42,378 million for the year ended 31 March 2011 to ¥42,922 million (equivalent to approximately HK$4,034 million) for the year ended 31 March 2012. The decrease was primarily due to lower G-prize mark-ups for machines in most of our *Yuttari Kan* halls. Revenue margin decreased from 36.4% to 32.2%.

Shinrai no Mori halls. Revenue for *Shinrai no Mori* halls increased by ¥2,157 million (equivalent to approximately HK$203 million), or 23.7%, from ¥9,085 million for the year ended 31 March 2011 to ¥11,242 million (equivalent to approximately HK$1,057 million) for the year ended 31 March 2012. The increase was due primarily to an increase in overall customer spending during the period, partially offset by lower G-prize mark-ups adopted in our *Shinrai no Mori* halls. Revenue margin for *Shinrai no Mori* halls decreased from 30.1% to 27.7%.

Other income

Other income decreased by ¥390 million (equivalent to approximately HK$36.7 million), or 5.6%, from ¥6,962 million for the year ended 31 March 2011 to ¥6,572 million (equivalent to approximately HK$617 million) for the year ended 31 March 2012. The decrease in other income was primarily due to a decrease in reversal of impairment losses on property, plant and equipment during the year.

Hall operating expenses

The following table sets forth a breakdown of our hall operating expenses by hall type for the years indicated.

	Year ended 31 March							
	2011							
	Traditional		*Yuttari Kan*		*Shinrai no Mori*		Total	
	(in millions, except for percentages)							
	¥	%	¥	%	¥	%	¥	%
Hall staff costs	29,899	32.6%	12,616	32.1%	3,429	25.8%	45,944	31.9%
Machine expenses	28,941	31.6%	8,807	22.4%	3,542	26.7%	41,290	28.6%
Depreciation charges	5,090	5.6%	3,939	10.0%	2,424	18.3%	11,453	7.9%
Rental	5,515	6.0%	3,738	9.5%	790	5.9%	10,043	7.0%
Advertising expenses	5,474	6.0%	1,468	3.7%	724	5.5%	7,666	5.3%
Utilities expenses	2,686	2.9%	1,801	4.6%	414	3.1%	4,901	3.4%
G-prize expenses	2,438	2.7%	1,699	4.3%	456	3.4%	4,593	3.2%
Cleaning and ancillary services	2,501	2.7%	1,439	3.7%	288	2.2%	4,228	2.9%
Repair and maintenance	1,816	2.0%	1,014	2.6%	137	1.0%	2,967	2.1%
Others	7,316	7.9%	2,760	7.1%	1,078	8.1%	11,154	7.7%
Total	91,676	100.0%	39,281	100.0%	13,282	100.0%	144,239	100.0%

	Year ended 31 March											
	2012											
	Traditional			*Yuttari Kan*			*Shinrai no Mori*			Total		
	(in millions, except for percentages)											
	¥	*HK$*	%	¥	*HK$*	%	¥	*HK$*	%	¥	*HK$*	%
Hall staff costs	29,437	2,767	33.2%	13,176	1,238	34.7%	3,684	346	30.2%	46,297	4,351	33.4%
Machine expenses	26,460	2,487	29.9%	7,067	664	18.6%	2,212	208	18.1%	35,739	3,359	25.8%
Depreciation charges	4,818	453	5.4%	3,617	340	9.5%	2,353	221	19.3%	10,788	1,014	7.8%
Rental	5,410	508	6.1%	3,804	358	10.0%	952	89	7.8%	10,166	955	7.3%
Advertising expenses	4,626	435	5.2%	1,224	115	3.2%	415	39	3.4%	6,265	589	4.5%
Utilities expenses	2,505	235	2.8%	1,728	162	4.5%	483	45	4.0%	4,716	442	3.4%
G-prize expenses	2,481	233	2.8%	1,780	167	4.7%	570	54	4.7%	4,831	454	3.5%
Cleaning and ancillary services	2,451	230	2.8%	1,463	138	3.9%	359	34	2.9%	4,273	402	3.1%
Repair and maintenance	2,652	249	3.0%	1,090	102	2.9%	147	14	1.2%	3,889	365	2.8%
Others	7,745	728	8.8%	3,049	287	8.0%	1,027	97	8.4%	11,821	1,112	8.4%
Total	88,585	8,325	100.0%	37,998	3,571	100.0%	12,202	1,147	100.0%	138,785	13,043	100.0%

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The following table sets forth a breakdown of our average hall operating expenses per hall, by hall type, for the years indicated.

	Year ended 31 March							
	2011							
	Traditional		*Yuttari Kan*		*Shinrai no Mori*		Total	
	(in millions, except for percentages)							
	¥	%	¥	%	¥	%	¥	%
Hall staff costs	169.9	32.6%	95.6	32.1%	81.6	25.8%	131.3	31.9%
Machine expenses	164.4	31.6%	66.7	22.4%	84.3	26.7%	118.0	28.6%
Depreciation charges	28.9	5.6%	29.8	10.0%	57.7	18.3%	32.7	7.9%
Rental	31.3	6.0%	28.3	9.5%	18.8	5.9%	28.7	7.0%
Advertising expenses	31.1	6.0%	11.1	3.7%	17.2	5.5%	21.9	5.3%
Utilities expenses	15.3	2.9%	13.6	4.6%	9.9	3.1%	14.0	3.4%
G-prize expenses	13.9	2.7%	12.9	4.3%	10.9	3.4%	13.1	3.2%
Cleaning and ancillary services	14.3	2.7%	11.0	3.7%	6.9	2.2%	12.1	2.9%
Repair and maintenance	10.3	2.0%	7.7	2.6%	3.3	1.0%	8.5	2.1%
Others	41.5	7.9%	20.9	7.1%	25.7	8.1%	31.8	7.7%
Total	520.9	100.0%	297.6	100.0%	316.3	100.0%	412.1	100.0%

	Year ended 31 March											
	2012											
	Traditional			*Yuttari Kan*			*Shinrai no Mori*			Total		
	(in millions, except for percentages)											
	¥	*HK$*	%	¥	*HK$*	%	¥	*HK$*	%	¥	*HK$*	%
Hall staff costs	167.3	15.7	33.2%	97.6	9.2	34.7%	83.7	7.9	30.2%	130.4	12.3	33.4%
Machine expenses	150.3	14.1	29.9%	52.3	4.9	18.6%	50.3	4.7	18.1%	100.7	9.5	25.8%
Depreciation charges	27.4	2.6	5.4%	26.8	2.5	9.5%	53.5	5.0	19.3%	30.4	2.9	7.8%
Rental	30.7	2.9	6.1%	28.2	2.7	10.0%	21.6	2.0	7.8%	28.6	2.7	7.3%
Advertising expenses	26.3	2.5	5.2%	9.1	0.9	3.2%	9.4	0.9	3.4%	17.6	1.7	4.5%
Utilities expenses	14.2	1.3	2.8%	12.8	1.2	4.5%	11.0	1.0	4.0%	13.3	1.3	3.4%
G-prize expenses	14.1	1.3	2.8%	13.2	1.2	4.7%	13.0	1.2	4.7%	13.6	1.3	3.5%
Cleaning and ancillary services	13.9	1.3	2.8%	10.8	1.0	3.9%	8.2	0.8	2.9%	12.0	1.1	3.1%
Repair and maintenance	15.1	1.4	3.0%	8.1	0.8	2.9%	3.3	0.3	1.2%	11.0	1.0	2.8%
Others	44.0	4.1	8.8%	22.6	2.1	8.0%	23.3	2.2	8.4%	33.3	3.1	8.4%
Total	503.3	47.2	100.0%	281.5	26.5	100.0%	277.3	26.0	100.0%	390.9	36.9	100.0%

Hall operating expenses decreased by ¥5,454 million (equivalent to approximately HK$513 million), or 3.8%, from ¥144,239 million for the year ended 31 March 2011 to ¥138,785 million (equivalent to approximately HK$13,043 million) for the year ended 31 March 2012, despite the fact that we incurred losses of approximately ¥979 million (equivalent to approximately HK$92 million) for impairment of property, plant and equipment, as well as expenses for machine replacements and repairs in relation to the year ended 31 March 2012 and ¥195 million for the prior year as a result of the Great East Japan Earthquake.

Traditional halls. Hall operating expenses decreased by ¥3,091 million (equivalent to approximately HK$291 million), or 3.4%, from ¥91,676 million for the year ended 31 March 2011 to ¥88,585 million (equivalent to approximately HK$8,325 million) for the year ended 31 March 2012. On a per hall basis, average hall operating expenses decreased by approximately 3.4%, mainly due to a 8.6% decrease in pachinko and pachislot machine expenses resulting from a reduction in the number of machines acquired. After the Great East Japan Earthquake, logistics difficulties adversely affected the procurement of parts by machine manufacturers, which also affected the availability of new machines in the market and resulted in a reduction of our purchases of machines.

Yuttari Kan halls. Hall operating expenses decreased by ¥1,283 million (equivalent to approximately HK$121 million), or 3.3%, from ¥39,281 million for the year ended 31 March 2011 to ¥37,998 million (equivalent to approximately HK$3,571 million) for the year ended 31 March

2012. On a per hall basis, average hall operating expenses decreased by approximately 5.4% primarily as a result of lower pachinko and pachislot machines expenses, which decreased from approximately ¥66.7 million per hall to ¥52.3 million (equivalent to approximately HK$4.9 million) per hall. The decrease in pachinko and pachislot machine expenses was mainly attributable to the increasing proportion of second hand machines deployed from our traditional halls, instead of acquiring new or second hand machines from external suppliers.

Shinrai no Mori. Hall operating expenses decreased by ¥1,080 million (equivalent to approximately HK$102 million), or 8.1%, from ¥13,282 million for the year ended 31 March 2011 to ¥12,202 million (equivalent to approximately HK$1,147 million) for the year ended 31 March 2012. On a per hall basis, average hall operating expenses decreased by approximately 12.3%, primarily due to a decrease in pachinko and pachislot machine expenses from ¥84.3 million per hall to ¥50.3 million (equivalent to approximately HK$4.7 million) per hall. The reduction in pachinko and pachislot machine expenses primarily reflected a greater use of second hand machines transferred from our traditional halls.

General and administrative expenses

General and administrative expenses increased by ¥820 million (equivalent to approximately HK$77 million), or 87.8%, from ¥934 million for the year ended 31 March 2011 to ¥1,754 million (equivalent to approximately HK$164 million) for the year ended 31 March 2012, primarily due to a 150.3% increase in staff costs and 45.2% increase in other expenses. Staff costs increased by ¥571 million (equivalent to approximately HK$54 million), from ¥380 million for the year ended 31 March 2011 to ¥951 million (equivalent to approximately HK$89 million) for the year ended 31 March 2012. Such increase arose as a result of an increase in headcount in personnel responsible for hall development and site acquisition in anticipation of the accelerated opening of new halls under our expansion plans. Total headcount of administrative personnel increased from 54 as at 31 March 2011 to 138 as at 31 March 2012. The increase in other expenses reflected an increase in travel and transportation expenses and supplies expenses in connection with the increase in the number of administrative personnel.

Other operating expenses

Other operating expenses increased by ¥61 million (equivalent to approximately HK$5.7 million), or 7.5%, from ¥813 million for the year ended 31 March 2011 to ¥874 million (equivalent to approximately HK$81 million) for the year ended 31 March 2012, primarily due to an impairment loss on property, plant and equipment recorded during the year of ¥226 million (equivalent to approximately HK$21.2 million), partially offset by a decrease in net loss on derivative financial instruments by ¥189 million (equivalent to approximately HK$17.8 million), or 94.0%, from ¥201 million to ¥12 million (equivalent to approximately HK$1 million). The net loss on derivative financial instruments decreased as a result of the expiration of certain interest rate swap contracts as at 31 March 2012, which we entered into to hedge interest rate exposure for bank borrowings.

Finance costs

Finance costs decreased by ¥304 million (equivalent to approximately HK$28.6 million), or 14.2%, from ¥2,137 million for the year ended 31 March 2011 to ¥1,833 million (equivalent to approximately HK$172 million) for the year ended 31 March 2012. The decrease was due primarily to a decrease in bank borrowings during the year. We discontinued our practice of incurring borrowings from related parties in November 2011, and have no intention of borrowing further amounts from related parties. For further information on such borrowings, see Note 34 to the Accountants' Report in Appendix I to this document.

Income tax expenses

Our income tax expenses increased by ¥221 million (equivalent to approximately HK$20.8 million), or 1.8%, from ¥12,285 million for the year ended 31 March 2011 to ¥12,506 million (equivalent to approximately HK$1,175 million) for the year ended 31 March 2012. Our effective tax rate was 43.1% for the year ended 31 March 2011 and 44.0% for the year ended 31 March 2012. Our effective tax rate increased for the year because beginning 1 April 2012, our effective corporate tax rate decreased from 40.7% to 35.6%, as a result of the Tax Reform 2011 announced by the Ministry of Finance of Japan in December 2011 and led to a one-time downward adjustment of deferred tax assets and a corresponding one-time increase in deferred tax.

Profit for the year

As a result of the foregoing, our profit for the year decreased by 1.8%, from ¥16,191 million for the year ended 31 March 2011 to ¥15,898 million (equivalent to approximately HK$1,497 million) for the year ended 31 March 2012.

Year ended 31 March 2011 compared to the year ended 31 March 2010

Gross pay-ins

Our gross pay-ins decreased by ¥2,141 million, or 0.2%, from ¥862,023 million for the year ended 31 March 2010 to ¥859,882 million for the year ended 31 March 2011.

Traditional halls. Gross pay-ins for traditional halls decreased by ¥46,037 million, or 6.1%, from ¥759,481 million for the year ended 31 March 2010 to ¥713,444 million for the year ended 31 March 2011. Average gross pay-ins per hall decreased by ¥261.5 million, or 6.1%, from ¥4,315.2 million to ¥4,053.7 million. These decreases were due to customer migration from high playing cost machines to low playing cost machines as a result of the increase in percentage of low playing cost machine to 21.1% as at 31 March 2011 from 16.7% as at 31 March 2010. The increase was driven by our continuous effort to cater for the change in demand of our customers.

Yuttari Kan halls. Gross pay-ins for *Yuttari Kan* halls increased by ¥21,977 million, or 23.3%, from ¥94,318 million for the year ended 31 March 2010 to ¥116,295 million for the year ended 31 March 2011. The increase was due primarily to the success of our strategy to increase our investment in new machines leading to an increase in average gross pay-ins from customers. Average gross pay-ins from customers per hall increased ¥155.5 million, or 21.4%, from ¥725.5 million to ¥881.0 million. The increase was primarily due to more customers for low playing cost machines visiting our *Yuttari Kan* halls during the year.

Shinrai no Mori. Gross pay-ins for *Shinrai no Mori* halls increased by ¥21,919 million, or 266.5%, from ¥8,224 million for the year ended 31 March 2010 to ¥30,143 million for the year ended 31 March 2011. The increase was primarily due to the opening of 17 additional *Shinrai no Mori* halls during the year. Average gross pay-ins from customers also increased by ¥388.7 million, or 118.1%, from ¥329.0 million for the year ended 31 March 2010 to ¥717.7 million for the year ended 31 March 2011, which reflected the increasing popularity of non-smoking halls and low playing cost machines.

Gross payouts

Our gross payouts decreased by ¥6,317 million, or 0.9%, from ¥696,562 million for the year ended 31 March 2010 to ¥690,245 million for the year ended 31 March 2011.

Traditional halls. Gross payouts decreased by ¥42,371 million, or 6.6%, from ¥637,641 million for the year ended 31 March 2010 to ¥595,270 million for the year ended 31 March 2011, which was in line with a 6.1% decline in gross pay-ins from customers recorded during the year.

Yuttari Kan halls. Gross payouts increased by ¥20,792 million, or 39.1%, from ¥53,125 million for the year ended 31 March 2010 to ¥73,917 million for the year ended 31 March 2011, reflecting an increase in gross pay-ins as well as our lower G-prize mark-ups to our customers in some of our *Yuttari Kan* halls.

Shinrai no Mori. Gross payouts increased by ¥15,262 million, or 263.3%, from ¥5,796 million for the year ended 31 March 2010 to ¥21,058 million for the year ended 31 March 2011, reflecting an increase in gross pay-ins due to the addition of 17 halls during the year.

Revenue and revenue margin

Our revenue increased by ¥4,176 million, or 2.5%, from ¥165,461 million for the year ended 31 March 2010 to ¥169,637 million for the year ended 31 March 2011. The increase in revenue was due primarily to an increase in the number of our pachinko halls from 331 halls to 350 halls during the year.

Traditional halls. Revenue for traditional halls decreased by ¥3,666 million, or 3.0%, from ¥121,840 million for the year ended 31 March 2010 to ¥118,174 million for the year ended 31 March 2011. The decrease was primarily due to a decrease in gross pay-ins over the year. Revenue margin slightly increased from 16.0% to 16.6%, mainly as a result of changing the machine mix to a greater portion of higher jackpot probability machines in the halls. Higher jackpot probability machines generally result in higher revenue margins.

Yuttari Kan halls. Revenue for *Yuttari Kan* halls increased by ¥1,185 million, or 2.9%, from ¥41,193 million for the year ended 31 March 2010 to ¥42,378 million for the year ended 31 March 2011. The increase was primarily due to additional machine spending resulting in increased gross pay-ins during the year, partially offset by lower G-prize mark-ups for machines in our *Yuttari Kan* halls. In order to enhance our competitiveness and attract more customers, we lowered G-prize mark-ups for machines in some of our halls. As a result, revenue margin decreased from 43.7% to 36.4%.

Shinrai no Mori halls. Revenue for *Shinrai no Mori* halls increased by ¥6,657 million, or 274.2%, from ¥2,428 million for the year ended 31 March 2010 to ¥9,085 million for the year ended 31 March 2011. The increase was primarily due to the addition of 17 new halls during the year. Revenue margin for *Shinrai no Mori* halls slightly increased from 29.5% to 30.1%.

Other income

Other income increased by ¥64 million, or 0.9%, from ¥6,898 million for the year ended 31 March 2010 to ¥6,962 million for the year ended 31 March 2011. The increase was due primarily to an increase of commission income from vending machines and in-store sales of ¥334 million, a reversal of impairment losses on property, plant and equipment of ¥352 million, offsetting the impact of a one-off gain of ¥766 million on bargain purchase resulting from discount on acquisition of Cabin Plaza and Daikokuten in the prior year.

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Hall operating expenses

The following table sets forth a breakdown of our hall operating expenses by hall type for the periods indicated.

	Year ended 31 March															
	2010								2011							
	Traditional		Yuttari Kan		Shinrai no Mori		Total		Traditional		Yuttari Kan		Shinrai no Mori		Total	
	(in ¥ millions, except for percentages)															
		%		%		%		%		%		%		%		%
Hall staff costs	29,748	32.2	11,740	32.9	1,606	24.1	43,094	32.0	29,899	32.6	12,616	32.1	3,429	25.8	45,944	31.9
Machine expenses	28,002	30.3	5,651	15.8	2,040	30.6	35,693	26.5	28,941	31.6	8,807	22.4	3,542	26.7	41,290	28.6
Depreciation charges	5,892	6.4	4,457	12.5	1,050	15.8	11,399	8.5	5,090	5.6	3,939	10.0	2,424	18.2	11,453	7.9
Rental	5,774	6.2	3,491	9.8	318	4.8	9,583	7.1	5,515	6.0	3,738	9.5	790	5.9	10,043	7.0
Advertising expenses	4,639	5.0	1,254	3.5	450	6.8	6,343	4.7	5,474	6.0	1,468	3.7	724	5.5	7,666	5.3
Utilities expenses	2,701	2.9	1,746	4.9	148	2.2	4,595	3.4	2,686	2.9	1,801	4.6	414	3.1	4,901	3.4
G-prize expenses	2,461	2.7	1,655	4.6	167	2.5	4,283	3.2	2,438	2.7	1,699	4.3	456	3.4	4,593	3.2
Cleaning and ancillary services	2,769	3.0	1,691	4.8	152	2.3	4,612	3.4	2,501	2.7	1,439	3.7	288	2.2	4,228	2.9
Repair and maintenance	2,034	2.2	1,048	2.9	54	0.8	3,136	2.3	1,816	2.0	1,014	2.6	137	1.0	2,967	2.1
Others	8,391	9.1	2,987	8.3	671	10.1	12,049	8.9	7,316	7.9	2,760	7.1	1,078	8.2	11,154	7.7
Total	92,411	100.0	35,720	100.0	6,656	100.0	134,787	100.0	91,676	100.0	39,281	100.0	13,282	100.0	144,239	100.0

The following table sets forth a breakdown of our average hall operating expenses per hall, by hall type, for the periods indicated.

	Year ended 31 March															
	2010								2011							
	Traditional		*Yuttari Kan*		*Shinrai no Mori*		Total		Traditional		*Yuttari Kan*		*Shinrai no Mori*		Total	
	(in ¥ millions, except for percentages)															
		%		%		%		%		%		%		%		%
Hall staff costs	169.0	32.2	90.3	32.9	64.2	24.1	130.2	32.0	169.9	32.6	95.6	32.1	81.6	25.8	131.3	31.9
Machine expenses	159.1	30.3	43.5	15.8	81.6	30.6	107.8	26.5	164.4	31.6	66.7	22.4	84.3	26.7	118.0	28.6
Depreciation charges	33.5	6.4	34.3	12.5	42.0	15.8	34.4	8.5	28.9	5.6	29.8	10.0	57.7	18.2	32.7	7.9
Rental	32.8	6.2	26.9	9.8	12.7	4.8	29.0	7.1	31.3	6.0	28.3	9.5	18.8	5.9	28.7	7.0
Advertising expenses	26.4	5.0	9.6	3.5	18.0	6.8	19.2	4.7	31.1	6.0	11.1	3.7	17.2	5.5	21.9	5.3
Utilities expenses	15.3	2.9	13.4	4.9	5.9	2.2	13.9	3.4	15.3	2.9	13.6	4.6	9.9	3.1	14.0	3.4
G-prize expenses	14.0	2.7	12.7	4.6	6.7	2.5	12.9	3.2	13.9	2.7	12.9	4.3	10.9	3.4	13.1	3.2
Cleaning and ancillary services	15.8	3.0	13.1	4.8	6.1	2.3	13.9	3.4	14.3	2.7	11.0	3.7	6.9	2.2	12.1	2.9
Repair and maintenance	11.6	2.2	8.1	2.9	2.2	0.8	9.5	2.3	10.3	2.0	7.7	2.6	3.3	1.0	8.5	2.1
Others	47.6	9.1	22.9	8.3	26.8	10.1	36.4	8.9	41.5	7.9	20.9	7.1	25.7	8.2	31.8	7.7
Total	525.1	100.0	274.8	100.0	266.2	100.0	407.2	100.0	520.9	100.0	297.6	100.0	316.3	100.0	412.1	100.0

Hall operating expenses increased by ¥9,452 million, or 7.0%, from ¥134,787 million to ¥144,239 million during the year, primarily attributable to the increase in number of *Yuttari Kan* and *Shinrai no Mori* halls.

Traditional halls. Hall operating expenses decreased by ¥735 million, or 0.8%, from ¥92,411 million for the year ended 31 March 2010 to ¥91,676 million for the year ended 31 March 2011. On a per hall basis, average hall expenses also decreased by 0.8%. The decreases were due primarily to decreases in cleaning expenses, depreciation charges, G-prize expenses, rental expenses and others, partially offset by a 3.3% increase in pachinko and pachislot machines expenses. We acquired more new machines during the year with the intention of attracting more customers to our halls.

Yuttari Kan halls. Hall operating expenses increased by ¥3,561 million, or 10.0%, from ¥35,720 million for the year ended 31 March 2010 to ¥39,281 million for the year ended 31 March 2011. On a per hall basis, average hall expenses increased by 8.3%, from ¥274.8 million for the year ended 31 March 2010 to ¥297.6 million for the year ended 31 March 2011. The increases were due primarily to a 53.3% increase in machine expenses and a 5.9% increase in hall staff costs. We added more new machines in order to enhance their attractiveness to customers and added more staff to better serve our customers.

Shinrai no Mori. Hall operating expenses increased by ¥6,626 million, or 99.5%, from ¥6,656 million for the year ended 31 March 2010 to ¥13,282 million for the year ended 31 March 2011, primarily due to the addition of 17 new halls, as well as the results of a full year's operation in the year ended 31 March 2011 for 22 new halls opened in the year ended 31 March 2010. On a per hall basis, average hall operating expenses increased by 18.8%, from ¥266.2 million for the year ended 31 March 2010 to ¥316.3 million for the year ended 31 March 2011. The increase was due primarily to a 27.1% increase in hall staff costs per hall to ¥81.6 million in the year ended 31 March 2011 from ¥64.2 million in the year ended 31 March 2010, and a 37.4% increase in depreciation charges per hall to ¥57.7 million in the year ended 31 March 2011 from ¥42.0 million in the year ended 31 March 2010, as a result of the full year's operation of the 22 new halls opened in the year ended 31 March 2010.

General and administrative expenses

General and administrative expenses increased by ¥292 million, or 45.5%, from ¥642 million for the year ended 31 March 2010 to ¥934 million for the year ended 31 March 2011. The increase was primarily due to an increase of staff costs by ¥115 million, or 43.4%, from ¥265 million for the year ended 31 March 2010 to ¥380 million for the year ended 31 March 2011. The increase reflected an increase in headcount in our administrative departments. The number of staff increased from 43 as at 31 March 2010 to 63 as at 31 March 2011 as we increased our personnel in our data processing and IT departments.

Other operating expenses

Other operating expenses decreased by ¥375 million, or 31.6%, from ¥1,188 million for the year ended 31 March 2010 to ¥813 million for the year ended 31 March 2011. The decrease was primarily due to a decrease in impairment loss on property, plant and equipment, and to a lesser extent a decrease in expenses on investment properties. Impairment loss on property, plant and equipment was ¥421 million in the year ended 31 March 2010 and nil in the year ended 31 March 2011, reflecting that the value in use of property, plant and equipment exceeded the carrying amount at year end. Expenses on investment properties decreased by 25.6%, as compared to the previous year, due primarily to an expiration of a lease agreement.

Finance costs

Finance costs decreased by ¥305 million, or 12.5%, from ¥2,442 million for the year ended 31 March 2010 to ¥2,137 million for the year ended 31 March 2011. The decrease was primarily due to a decrease of ¥201 million in interest expenses on bank loans, reflecting a repayment of bank loans in the principal amount of ¥30,527 million. The decrease in finance costs also reflected a change in the payment method of machine purchases from the instalment method to payment on a monthly basis, as a result of which interest on machine instalment payables decreased from ¥239 million for the year ended 31 March 2010 to zero for the year ended 31 March 2011.

Income tax expenses

Our income tax expenses decreased by ¥801 million, or 6.1%, from ¥13,086 million for the year ended 31 March 2010 to ¥12,285 million for the year ended 31 March 2011. Our effective tax rate was 39.3% for the year ended 31 March 2010 and 43.1% for the year ended 31 March 2011. The decrease in income tax expenses in the year ended 31 March 2011 compared to the year ended 31 March 2010 was due primarily to a decrease of ¥4,824 million in profit before tax. The increase in the effective tax rate was due primarily to additional tax liability applicable to a Specified Family Company of ¥360 million.

Profit for the year

As a result of the foregoing, our profit for the year decreased by ¥4,023 million, or 19.9%, from ¥20,214 million for the year ended 31 March 2010 to ¥16,191 million for the year ended 31 March 2011.

Liquidity and Capital Resources

Our principal sources of funds are cash generated from our operations and various short-term and long-term bank borrowings and lines of credit. Our primary liquidity requirements are to finance working capital, fund the payment of interest and principal due on our indebtedness and fund our capital expenditures and the growth and expansion of our operations.

We have historically met our working capital and other liquidity requirements principally from cash generated by our operations, while financing the remainder primarily through bank borrowings. Going forward, we expect to continue relying principally on our internally-generated cash flows for our working capital and other liquidity requirements, and will also use the [●] and bank borrowings as capital resources to finance a portion of our operations. We have historically relied primarily on short-term debt, rather than long-term debt, in order to take advantage of the significantly lower interest rates on short-term debt, which in turn lowers our financing costs, and is also consistent with our approach to finance working capital. Should we increase the amount of our long-term capital expenditures and other capital commitments in the future, we may finance these long-term expenditures with long-term debt, if necessary.

Cash flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Net cash generated from operating activities	19,229	33,399	31,906	2,998
Net cash (used in)/generated from investing activities	(10,053)	(17,248)	10,998	1,034
Net cash used in financing activities	(7,560)	(20,778)	(31,840)	(2,992)
Net increase/(decrease) in cash and cash equivalents	1,616	(4,627)	11,064	1,040
Cash and cash equivalents as at beginning of the year	20,471	22,087	17,460	1,641
Cash and cash equivalents as at the end of the year	22,087	17,460	28,524	2,681

Net cash generated from operating activities

The following table sets forth a summary of our cash flows from operating activities for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Operating profit before working capital changes	47,358	42,510	42,498	3,994
Change in working capital — (used)/ generated	(5,507)	(553)	2,704	254
Cash generated from operations	41,851	41,957	45,202	4,248
Income taxes paid	(20,429)	(6,975)	(12,360)	(1,162)
Finance costs paid	(2,193)	(1,583)	(936)	(88)
Net cash generated from operating activities	19,229	33,399	31,906	2,998

Net cash generated from operating activities was ¥19,229 million, ¥33,399 million and ¥31,906 million (equivalent to approximately HK$2,998 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

Our net cash generated from operating activities was ¥31,906 million (equivalent to approximately HK$2,998 million) for the year ended 31 March 2012 as compared to ¥33,399 million for the year ended 31 March 2011. The reduction in our net cash generated from operating activities was mainly a result of a ¥5,385 million (equivalent to approximately HK$506 million) increase in income taxes paid, partially offset by increase in working capital by ¥3,257 million (equivalent to approximately HK$306 million). We generated ¥2,704 million (equivalent to approximately HK$254 million) in working capital during the year ended 31 March 2012, which mainly reflected an increase of ¥3,349 million (equivalent to approximately HK$315 million) in accruals and other payables resulting from an increase in pachinko and pachislot machines payables, hall construction and system payables and accrued staff cost. The positive effects on working capital were partially offset by an increase of ¥1,083 million (equivalent to approximately HK$102 million) in prepayments, deposits and other receivables, which included prepayment of [●] expenses and increases in withholding tax receivable.

Our net cash generated from operating activities was ¥33,399 million for the year ended 31 March 2011 as compared to ¥19,229 million for the year ended 31 March 2010. The increase mainly reflected lower income taxes paid of ¥13,454 million as compared to the year ended 31 March 2010, partially offset by a ¥4,848 million decrease in operating profit before working capital changes. We used ¥553 million in working capital for the year ended 31 March 2011, which mainly reflected a decrease of ¥1,857 million in accruals and other payables primarily due to the decreases of (a) pachinko and pachislot machines payables; (b) other tax expenses; and (c) halls construction and related system payables after offsetting the increases of accrued staff costs and unutilised balls and tokens. These negative effects on working capital were partially offset by a decrease of ¥1,258 million in inventories primarily because lower inventories were maintained as at 31 March 2011.

Net cash (used in) generated from investing activities

Cash flows from investing activities primarily consist of capital expenditures for property, plant and equipment, including buildings and leasehold improvements, tools and equipment, motor vehicles and construction in progress.

For the year ended 31 March 2012, net cash generated from investing activities was ¥10,998 million (equivalent to approximately HK$1,034 million) compared to cash used in investing activities of ¥17,248 million for the year ended 31 March 2011. The cash inflow was primarily due to a ¥17,438 million (equivalent to approximately HK$1,639 million) decrease in amounts due from related companies, which mainly reflected the repayment of amounts lent by our Group to related companies. This was partially offset by ¥7,471 million (equivalent to approximately HK$702 million) used in purchases of property, plant and equipment for the year ended 31 March 2012 as compared with ¥6,152 million for the year ended 31 March 2011.

For the year ended 31 March 2011, net cash used in investing activities increased by ¥7,195 million, or 71.6%, from ¥10,053 million for the year ended 31 March 2010 to ¥17,248 million for the year ended 31 March 2011. The increase was primarily due to an advance of ¥11,294 million to related companies, partially offset by a decrease in purchase of property, plant and equipment of ¥4,981 million, as compared with ¥11,133 million used for the purchase of property, plant and equipment for the year ended 31 March 2010.

Net cash used in financing activities

Our cash generated from financing activities primarily consists of proceeds from borrowings. Our cash used in financing activities primarily consists of repayment of bank borrowings, dividends paid to Shareholders and repayment of finance leases.

For the year ended 31 March 2012, net cash used in financing activities increased by ¥11,062 million (equivalent to approximately HK$1,040 million), or 53.2%, from ¥20,778 million for the year ended 31 March 2011 to ¥31,840 million (equivalent to approximately HK$2,992 million) for the year ended 31 March 2012. The increase was primarily due to an ¥17,799 million (equivalent to approximately HK$1,673 million) increase in repayment to related parties for the year ended 31 March 2012 and a ¥6,926 million (equivalent to approximately HK$651 million) increase in repayment of bank loans as compared to the prior period. These negative effects in financing activities were partially offset by an increase in convertible bonds raised by ¥4,999 million (equivalent to approximately HK$470 million) and an increase in proceeds from incorporation of the Company under the Reorganisation of ¥7,242 million (equivalent to approximately HK$681 million).

For the year ended 31 March 2011, net cash used in financing activities increased by ¥13,218 million, or 174.8%, from ¥7,560 million for the year ended 31 March 2010 to ¥20,778 million for the year ended 31 March 2011. The increase was primarily due to a ¥29,248 million decrease in the amount of bank loans raised as compared to the previous year, partially offset by a decrease in repayment of bank loans. Repayment of bank loans decreased by ¥12,778 million for the year ended 31 March 2011 as compared to the year ended 31 March 2010.

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Working capital

The following table sets forth our current assets and current liabilities for the periods indicated:

	As at 31 March				As at 31 May	
	2010	2011	2012		2012	
	¥	¥	¥	*HK$*[1]	¥	*HK$*[2]
			(in millions)			
Current assets						
Inventories	5,981	4,747	4,531	426	4,784	474
Trade receivables	374	352	381	36	407	40
Prepayments, deposits and other receivables	2,948	2,321	3,415	322	4,622	458
Financial assets at fair value through profit or loss	377	—	—	—	—	—
Amounts due from related companies	517	8,998	20	2	19	2
Fixed bank deposits	687	888	—	—	—	—
Bank and cash balances	22,087	17,460	28,524	2,681	19,869	1,967
	32,971	34,766	36,871	3,467	29,701	2,941
Current liabilities						
Trade payables	1,459	1,232	1,148	108	963	95
Accruals and other payables	19,329	17,600	21,090	1,983	19,134	1,894
Derivative financial instruments	272	200	62	6	62	6
Amounts due to related companies	2,513	896	443	42	449	44
Borrowings	26,335	15,439	1,654	155	1,655	164
Finance lease payables	1,932	1,373	1,187	112	1,190	118
Provisions	1,309	1,318	1,460	137	1,459	144
Current tax liabilities	2,598	6,962	6,340	596	2,272	225
	55,747	45,020	33,384	3,139	27,184	2,690
Net current (liabilities)/assets	(22,776)	(10,254)	3,487	328	2,517	251

(1) Translated into Hong Kong dollars at the rate of ¥10.64 to HK$1.00, which was the exchange rate prevailing on 30 March 2012 (i.e. the last business day during the Relevant Period).

(2) Translated into Hong Kong dollars at the rate of ¥10.10 to HK$1.00, which was the exchange rate prevailing on 31 May 2012.

We have financed our operations and expansion with cash raised from our operating and financing activities. We had short-term borrowings of ¥26,335 million, ¥15,439 million and ¥1,654 million (equivalent to approximately HK$155 million) as at 31 March 2010, 2011 and 2012 respectively. We used a significant amount of such short-term borrowings to invest in the construction of our pachinko halls. We normally record our pachinko halls as long-term assets rather than current assets.

Our cash used in the acquisition of fixed assets, including the construction of pachinko halls, was ¥11,133 million and ¥6,152 million for the years ended 31 March 2010 and 2011, respectively. As a result, we recorded net current liabilities of ¥22,776 million and ¥10,254 million as at 31 March 2010 and 2011, respectively. In the year ended 31 March 2012, we recorded net current assets of ¥3,487 million (equivalent to approximately HK$328 million).

Our net current liability position is generally in line with what we believe to be appropriate for the pachinko industry, where pachinko operators use short-term and long-term borrowings to finance their long-term investments in pachinko halls. With an improved financing position and performance as at 31 March 2010 and 2011, we were able to secure additional bank borrowings of ¥43,098 million and ¥13,850 million for the years ended 31 March 2010 and 2011, respectively. After [●], we intend to use a higher proportion of long-term loans to finance our operation and expansion.

As at the Latest Practicable Date, we had not defaulted on the repayment of any of our borrowings, or experienced any difficulty in raising funds with our principal banks or in rolling over short-term borrowings from various banks.

Notwithstanding the above, we plan to improve our liquidity position by funding our expansion plans for 2012 and 2013 with [●].

As at 31 March 2012, we had ¥25,000 million (equivalent to approximately HK$2,350 million) of banking facilities available to us from commercial banks, of which approximately ¥9,000 million (equivalent to approximately HK$846 million) was unutilised, and cash and cash equivalents of ¥28,524 million (equivalent to approximately HK$2,681 million).

Inventories

The following table sets forth the components of our inventories as at the dates indicated:

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
G-Prize	3,339	3,128	2,276	214
General prize	1,181	1,029	1,093	103
Supplies	1,461	590	1,162	109
	5,981	4,747	4,531	426

Our total inventories decreased from ¥5,981 million as at 31 March 2010 to ¥4,747 million as at 31 March 2011. The decrease was primarily attributable to decreases of supplies and prizes. As a result of the Great East Japan Earthquake in March 2011, logistics services were significantly affected throughout Japan. Therefore, our inventory level was lower as compared to the previous year.

Our total inventories decreased from ¥4,747 million as at 31 March 2011 to ¥4,531 million (equivalent to approximately HK$426 million) as at 31 March 2012, which was primarily attributable to a decrease in G-prizes of ¥852 million (equivalent to approximately HK$80 million), partially offset by an increase in general prizes and supplies by ¥64 million (equivalent to approximately HK$6 million) and ¥572 million (equivalent to approximately HK$54 million), respectively.

Trade receivables and prepayments, deposit and other receivables

The following table sets forth our trade receivables, prepayments, deposit and other receivables as at the dates indicated:

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
	(in millions)			
Trade receivables	374	352	381	36
Prepayments				
Lender commitment fee	319	153	226	21
Insurance	82	79	81	8
Rental	1,604	1,697	1,817	171
Staff advance	88	44	51	5
Withholding tax receivable	—	—	423	40
[●] expenses	—	—	533	50
Others	472	161	177	17
	2,565	2,134	3,308	312
Deposit	179	—	—	—
Other receivables				
Consumption tax refundable[(1)]	187	75	53	5
G-prize refundable[(2)]	—	112	—	—
Income tax refundable[(3)]	17	—	54	5
	204	187	107	10
	2,948	2,321	3,415	322

(1) In Japan, a 5% consumption tax is levied on all taxable transactions. Consumption tax refundable is calculated based on the net of the consumption tax paid minus consumption tax collected.

(2) When a refund is made by wholesalers to us for returned G-prizes, our bank and cash increases and other receivables decreases accordingly.

(3) Income tax refundable is the excessive provisional tax payment paid during the period. The provisional tax payment is calculated based on the estimated tax assessable profit during the period.

Our trade receivables are primarily related to commission income from vending machines. Our trade receivables were ¥374 million, ¥352 million and ¥381 million (equivalent to approximately HK$36 million) as at 31 March 2010, 2011, and 2012, respectively. We seek to maintain strict control over trade receivables. The credit terms of the trade receivables range up to 30 days and no balances were past due as at 31 March 2010, 2011 and 2012.

Our prepayments, deposit and other receivables decreased from ¥2,948 million as at 31 March 2010 to ¥2,321 million as at 31 March 2011, primarily reflecting a decrease in deposits, lender commitment fee, consumption tax refundable and other prepayments, partially offset by an increase in rental prepayments. Japanese consumption tax is a pass-through tax for registered companies in Japan, and consumption tax amounts paid by us are deductible against tax amounts collected through taxable sales or income. During the year ended 31 March 2011, a net amount of approximately ¥75 million was received from the Japan tax authority as a refund, resulting in a decrease of the consumption tax refundable. Furthermore, prepayments for the construction of new halls as included in other prepayments decreased by approximately ¥185 million as less new halls were constructed in the following year. Lender commitment fee was related to the commitment fee paid for the short term banking facility obtained. Lender

commitment fee decreased by ¥166 million, from ¥319 million as at 31 March 2010 to ¥153 million as at 31 March 2011, because we obtained a three year banking facility of which the lender commitment fee was booked in other long-term receivables.

Our prepayments, deposit and other receivables increased from ¥2,321 million as at 31 March 2011 to ¥3,415 million (equivalent to approximately HK$322 million) as at 31 March 2012, primarily due to [●] expenses totaling approximately ¥533 million (equivalent to approximately HK$50 million) during the year and an increase of ¥54 million (equivalent to approximately HK$5 million) in income tax refundable. The increase in income tax refundable was primarily due to an excessive tax prepayment, which was calculated based on our estimate of tax assessable for the period.

Trade payables and accruals and other payables

The following table sets forth our trade payables, accruals and other payables as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Trade payables	1,459	1,232	1,148	108
Accruals and other payables				
Accrued interest expenses	103	48	8	1
Accrued staff costs	6,391	6,628	7,598	714
Advertisement and promotion payables	450	349	512	48
Unutilised balls and tokens	3,792	4,173	4,198	395
Halls construction and system payables	2,473	2,367	2,669	251
Other tax expenses	2,372	1,056	1,816	171
Pachinko and pachislot machines payables	3,199	2,495	3,745	352
Rental receipt in advance	68	69	73	7
Others	481	415	471	44
	19,329	17,600	21,090	1,983

Our trade payables are primarily related to purchases of general prizes and supplies. Our trade payables were ¥1,459 million, ¥1,232 million and ¥1,148 million (equivalent to approximately HK$108 million) as at 31 March 2010, 2011 and 2012, respectively. Trade payables turnover days were within 30 days as at 31 March 2010, 2011 and 2012.

As at 31 March 2010, 2011 and 2012, we had other payables of ¥19,329 million, ¥17,600 million and ¥21,090 million (equivalent to approximately HK$1,983 million), respectively. Our other payables mainly comprise accrued staff costs, unutilised balls and tokens, halls construction and system payables, other tax expenses and pachinko and pachislot machines payables.

Our other payables decreased from ¥19,329 million as at 31 March 2010 to ¥17,600 million as at 31 March 2011, primarily due to a decrease of other tax expenses of ¥1,316 million, which resulted from a decrease of tax payable on fixed assets acquisition of ¥116 million, of withholding tax payable on dividends paid during the year of ¥762 million and of consumption tax payable of ¥441 million.

Our other payables increased from ¥17,600 million as at 31 March 2011 to ¥21,090 million (equivalent to approximately HK$1,983 million) as at 31 March 2012. The increase was primarily due to an increase of accrued staff costs, reflecting an increase in headcount and general

wages and allowances and an increase of pachinko and pachislot machines payables, reflecting a considerable amount of pachinko and pachislot machine purchases incurred in March 2012 as compared to the prior year.

Our Directors confirm that we had no material defaults on our trade and other payables during the Relevant Period.

Convertible bonds

On 22 November 2011, the Company entered into convertible bonds agreements with each of the seven independent investors in respect of the issue of convertible bonds in an aggregate principal amount of US$65 million (the "CBs"). The maturity date of the CBs is 21 November 2012. The CBs bear interest from the date of issue at the rate of 1% per annum and are payable in arrears on the maturity date.

On 1 March 2012, our Company issued a notice to each of the CB Holders to fully redeem the CBs at a price equivalent to the principal amount of the CBs together with accrued interest, in accordance with the terms of the CBs. The decision to redeem the CBs was made after the review of our working capital, which, in the opinion of our Directors, is sufficient to support our short-term business needs absent the subscription monies of the CBs. The redemption of the CBs was completed on 12 March 2012. Following the redemption of the CBs, none of the CB Holders is entitled to any form of securities in our Company.

Analysis of financial position

The following table sets forth our non-current assets and liabilities as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Non-current assets				
Property, plant and equipment	101,191	98,004	95,033	8,931
Investment properties	999	982	1,027	97
Intangible assets	1,775	1,678	1,489	140
Available-for-sale financial assets	5,093	5,357	509	48
Held-to-maturity investment	10	10	10	1
Deferred tax assets	12,572	11,549	10,864	1,022
Other long-term assets	11,750	11,426	10,658	1,002
Amount due from a related company	—	2,800	—	—
Fixed bank deposits	597	355	—	—
	133,987	132,161	119,590	11,241
Non-current liabilities				
Derivative financial instruments	234	181	134	12
Amount due to a related company	2,900	5,580	—	—
Borrowings	27,934	22,578	21,583	2,029
Finance lease payables	3,277	3,074	2,331	219
Retirement benefit obligations	1,502	1,462	1,804	170
Other long-term liabilities	371	347	338	32
Provisions	3,064	3,315	3,413	321
	39,282	36,537	29,603	2,783

Property, plant and equipment

The following table sets forth our property, plant and equipment as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Buildings including leasehold improvements	55,170	53,971	51,573	4,847
Freehold land	25,774	26,549	26,736	2,513
Tools and equipment	18,300	17,111	16,697	1,569
Construction in progress	1,881	341	4	^
Motor vehicles	66	32	23	2
	101,191	98,004	95,033	8,931

^ Less than 0.5.

As at 31 March 2010, 2011 and 2012, we had property, plant and equipment of ¥101,191 million, ¥98,004 million and ¥95,033 million (equivalent to approximately HK$8,931 million), respectively. Our property, plant and equipment primarily include buildings including leasehold improvements, freehold land, tools and equipment, construction in progress and motor vehicles.

Our property, plant and equipment decreased from ¥101,191 million as at 31 March 2010 to ¥98,004 million as at 31 March 2011, primarily attributable to depreciation charges of ¥11,462 million, partially offset by an addition to property, plant and equipment of ¥7,630 million. The addition to property, plant and equipment was primarily related to the expansion of 18 pachinko halls during the year.

Our property, plant and equipment decreased from ¥98,004 million as at 31 March 2011 to ¥95,033 million (equivalent to approximately HK$8,931 million) as at 31 March 2012, primarily due to depreciation charges of ¥10,804 million (equivalent to approximately HK$1,015 million), partially offset by an addition to property, plant and equipment of ¥7,998 million (equivalent to approximately HK$752 million). The addition to property, plant and equipment was primarily related to the replacement of tools and equipment and expansion of five pachinko halls during the year.

Investment properties

As at 31 March 2010, 2011 and 2012, we had investment properties of ¥999 million, ¥982 million and ¥1,027 million (equivalent to approximately HK$97 million), respectively. Our investment properties comprise pachinko halls leased to independent third parties and freehold land held for capital appreciation.

Our investment properties decreased from ¥999 million as at 31 March 2010 to ¥982 million as at 31 March 2011, primarily due to a decrease in fair value of ¥17 million during the year.

Our investment properties increased from ¥982 million as at 31 March 2011 to ¥1,027 million (equivalent to approximately HK$97 million) as at 31 March 2012, primarily due to the transfer from property, plant and equipment of ¥66 million (equivalent to approximately HK$6 million), partially offset by a decrease in fair value of ¥21 million (equivalent to approximately HK$2 million) during the year.

Intangible assets

The following table sets forth our intangible assets as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Computer software	1,763	1,630	1,432	135
Goodwill	10	47	47	4
Trademarks	2	1	10	1
	1,775	1,678	1,489	140

As at 31 March 2010, 2011 and 2012, we had intangible assets of ¥1,775 million, ¥1,678 million and ¥1,489 million (equivalent to approximately HK$140 million), respectively. Our intangible assets comprise computer software, goodwill and trademarks.

Our intangible assets decreased from ¥1,775 million as at 31 March 2010 to ¥1,678 million as at 31 March 2011, primarily due to amortization charges of ¥549 million, partially offset by the addition in software of ¥415 million and addition in goodwill of ¥37 million during the year. The addition in software was primarily attributable to the upgrade of the systems in pachinko halls during the year. The addition in goodwill was primarily due to the acquisition of Okuwa Japan during the year.

Our intangible assets decreased from ¥1,678 million as at 31 March 2011 to ¥1,489 million (equivalent to approximately HK$140 million) as at 31 March 2012, primarily due to amortization charges of ¥495 million (equivalent to approximately HK$47 million) and intangible assets written off of ¥268 million (equivalent to approximately HK$25 million), partially offset by the addition in software of ¥390 million (equivalent to approximately HK$37 million) during the period. The addition in software was primarily attributable to the upgrade of the systems in pachinko halls during the year.

Available-for-sale financial assets

As at 31 March 2010, 2011 and 2012, we had available-for-sale financial assets of ¥5,093 million, ¥5,357 million and ¥509 million (equivalent to approximately HK$48 million), respectively. Our available-for-sale financial assets comprise listed securities in Japan, investment in DYH and club memberships.

Our available-for-sale financial assets increased from ¥5,093 million as at 31 March 2010 to ¥5,357 million as at 31 March 2011, primarily due to the conversion of the convertible bonds for listed equity securities of the issuer, increasing our holding of these listed equity securities from ¥151 million as at 31 March 2010 to ¥424 million as at 31 March 2011.

Our available-for-sale financial assets decreased from ¥5,357 million as at 31 March 2011 to ¥509 million (equivalent to approximately HK$48 million) as at 31 March 2012, primarily due to the distribution of a dividend in shares of DYH held by us to DYH during the year.

Held-to-maturity investment

Our held-to-maturity investment comprises national Japanese government bonds, which carry a fixed interest rate of 1% per annum, payable bi-annually, and mature in June 2013. Our held-to-maturity investment was ¥10 million (equivalent to approximately HK$1 million) as at 31 March 2010, 2011 and 2012, respectively.

Deferred tax assets

Deferred tax assets represent the excess of amounts expensed to the income statement over allowable deductions under Japanese tax regulations and the recovery of the carrying amount of the machines, which will reduce future tax payments. The following table sets forth our deferred tax assets as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Pachinko and pachislot machines	6,353	7,067	6,275	590
Staff costs	2,539	2,629	2,665	250
Property, plant and equipment	(915)	(1,867)	(1,656)	(156)
Unutilised balls and tokens	1,479	1,603	1,540	145
Pre-paid rent	950	1,065	1,081	102
Investment properties	145	122	112	11
Others[(1)]	2,021	930	847	80
	12,572	11,549	10,864	1,022

(1) Others mainly represent deferred tax assets recognised on the timing difference of the loss on derivative financial instruments, loss on earthquake, provision for bad debts and impairment of pachinko union fund. The pachinko union fund is established by pachinko hall operators in each prefecture to promote corporate social responsibility activities, exchange of industry information and promote the development of the pachinko industry. However, joining these unions is voluntary and at the discretion of the hall operator. A hall operator may join a pachinko union at any time after opening a hall in the relevant prefecture. Each union has its own guidelines which set the one-off amount an operator must contribute to join, as well as the ongoing monthly or annual membership fees. Each local union determines these amounts, which may vary among unions in different prefectures. The initial one-off contribution amounts may generally be refunded if the hall ceases operations or if the fund is dissolved. While joining the unions may allow us better access to local industry information, we consider various factors when determining whether to join, including whether the required contribution amount is reasonable to us. For the years ended 31 March 2010, 2011 and 2012, we made contributions of approximately ¥23.9 million, ¥6.3 million, and ¥1.9 million (equivalent to approximately HK$0.2 million) to these funds for 22, five and one of our halls, respectively, joining the pachinko union funds in their respective prefectures. Under our accounting policy, these contributions are initially accounted for under prepayments, deposits and other receivables, and are fully impaired in the year/period they are paid as we do not expect to withdraw our pachinko operations from any of the 46 prefectures where we currently operate. However, under the relevant Japanese tax regulations, such contributions are amortised as an allowable deduction over a five-year period.

As at 31 March 2010, 2011 and 2012, we had deferred tax assets of ¥12,572 million, ¥11,549 million and ¥10,864 million (equivalent to approximately HK$1,022 million), respectively. Our deferred tax assets mainly comprise pachinko and pachislot machines, staff costs, property, plant and equipment, unutilised balls and tokens and others. Because we spent considerable amounts on the purchases of pachinko and pachislot machines during the Relevant Period, significant deferred tax assets in connection with these purchases were recognised. The deferred tax assets in pachinko and pachislot machines increased from ¥6,353 million as at 31 March 2010 and to ¥7,067 million as at 31 March 2011. The increase of pachinko and pachislot machine deferred tax assets was consistent with the increase in pachinko and pachislot machine expenses during the same period. However, as at 31 March 2012, deferred assets in pachinko and pachislot machines decreased by ¥792 million (equivalent to approximately HK$74.4 million) to ¥6,275 million (equivalent to approximately HK$590 million) from ¥7,067 million as at 31 March 2011. The decrease reflected a 13.4% decrease of pachinko and pachislot machine expenses, from ¥41,290 million for the year ended 31 March 2011 to ¥35,739 million (equivalent to approximately HK$3,359 million) for the year ended 31 March 2012.

Our deferred tax assets decreased from ¥12,572 million as at 31 March 2010 to ¥11,549 million as at 31 March 2011, primarily due to a decrease in others of ¥1,091 million and increase in property, plant and equipment deferred tax liabilities of ¥952 million. The decrease in others was due primarily to the reversal of unrealised losses upon the conversion of convertible bonds for the listed equity securities of the issuer, together with a decrease in the amount of deferred tax assets recognised for finance leases as compared with prior years due to a reduction in our use of finance leases since 2010. The increase in property, plant and equipment deferred tax liabilities was due primarily to the recognition of additional unrealised losses on disposal of property interests from Dynam to Dynam Land during the year.

Our deferred tax assets decreased from ¥11,549 million as at 31 March 2011 to ¥10,864 million (equivalent to approximately HK$1,022 million) as at 31 March 2012. The decrease in deferred tax assets was primarily due to a ¥792 million (equivalent to approximately HK$74.4 million) decrease in deferred tax assets in pachinko and pachislot machines reflecting a decrease in pachinko and pachislot machine expenses during the year.

Other long-term assets

The following table sets forth our other long-term assets as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Pre-paid rental expenses	6,177	5,794	5,081	478
Rental deposits	4,925	5,022	5,061	476
Pre-paid lender commitment fee	319	297	228	21
Pre-paid insurance expenses	130	70	8	1
Others	199	243	280	26
	11,750	11,426	10,658	1,002

As at 31 March 2010, 2011 and 2012, we had other long-term assets of ¥11,750 million, ¥11,426 million and ¥10,658 million (equivalent to approximately HK$1,002 million), respectively. Our other long-term assets primarily include pre-paid rental expenses, rental deposits and pre-paid lender commitment fee, pre-paid insurance expenses and others.

Our other long-term assets decreased from ¥11,750 million as at 31 March 2010 to ¥11,426 million as at 31 March 2011, primarily due to a ¥383 million decrease in pre-paid rental expenses and ¥60 million decrease in insurance expenses, partially offset by a ¥97 million increase in rental deposits during the year. The decrease in pre-paid rental expenses and pre-paid insurance expenses was due primarily to amortisation charges incurred during the year. The increase in rental deposits was due primarily to 17 additional leasing arrangements that *Shinrai no Mori* halls entered into during the year.

Our other long-term assets decreased from ¥11,426 million as at 31 March 2011 to ¥10,658 million (equivalent to approximately HK$1,002 million) as at 31 March 2012, primarily due to a ¥713 million (equivalent to approximately HK$67 million) decrease in pre-paid rental expenses during the period. The decrease was due primarily to amortisation charges incurred during the year.

Derivative financial instruments

The following table sets forth our derivative financial instruments as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Interest rate swap contracts, at fair value	506	381	196	18
Less: current portion	(272)	(200)	(62)	(6)
Non-current portion	234	181	134	12

As at 31 March 2010, 2011 and 2012, we had derivative financial instruments of ¥506 million, ¥381 million and ¥196 million (equivalent to approximately HK$18 million), respectively. Our derivative financial instruments comprise interest rate swap contracts and derivative components of convertible bonds. In order to mitigate exposure associated with fluctuations relating to changes in interest rates, we entered into interest rate swap contracts with certain licensed banks in Japan to pay a fixed rate of interest bi-annually.

Our derivative financial instruments decreased from ¥506 million as at 31 March 2010 to ¥381 million as at 31 March 2011 and further decreased to ¥196 million (equivalent to approximately HK$18 million) as at 31 March 2012. These decreases were due primarily to expirations of our interest rate swap contracts and decreases in fair value during the Relevant Period.

We have in place a clear treasury policy in respect of our derivative financial instruments including, but not limited to, the following:

(i) the notional principal amount and maturity of the derivative financial instruments should correspond to the liabilities hedged by the derivative financial instruments;

(ii) our entry into a derivative financial instrument is subject to approval by our Directors and execution by our Finance Department; and

(iii) the use of derivative financial instruments is to hedge risks as part of financial risk management.

As stated in our treasury policy, the purpose of purchasing derivatives is to avoid the risk of fluctuations in interest payments on our borrowings by exchanging floating rates for fixed rates. Therefore, because our investments in derivatives are not for speculative purposes, we assess the risk of the derivative at the time we enter into the relevant derivatives contract.

The following tables set forth the notional amount of the interest rate swap contracts outstanding as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Interest rate swap contracts[(1)]	30,534	20,297	6,121	575

(1) Floating-to-fixed rate swaps.

Finance lease payables

The following table sets forth our finance lease payables as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Current portion	1,932	1,373	1,187	112
Non-current portion	3,277	3,074	2,331	219
	5,209	4,447	3,518	331

As at 31 March 2010, 2011 and 2012, we had finance lease payables of ¥5,209 million, ¥4,447 million and ¥3,518 million (equivalent to approximately HK$331 million), respectively. Our finance lease payables comprise finance leases of tools and equipment and motor vehicles.

Our finance lease payables decreased from ¥5,209 million as at 31 March 2010 to ¥4,447 million as at 31 March 2011 and further decreased to ¥3,518 million (equivalent to approximately HK$331 million) as at 31 March 2012, primarily due to the repayment of finance leases during the year.

Retirement benefit obligations

As at 31 March 2010, 2011 and 2012, we had retirement benefit obligations of ¥1,502 million, ¥1,462 million and ¥1,804 million (equivalent to approximately HK$170 million), respectively. Our retirement benefit obligations comprise defined benefit retirement plans for full-time employees and Directors upon retirement.

Our retirement benefit obligations decreased from ¥1,502 million as at 31 March 2010 to ¥1,462 million as at 31 March 2011, primarily due to actuarial gains of ¥222 million, partially offset by service costs recognised for the year of ¥217 million.

Our retirement benefit obligations increased from ¥1,462 million as at 31 March 2011 to ¥1,804 million (equivalent to approximately HK$170 million) as at 31 March 2012, primarily due to actuarial losses of ¥194 million (equivalent to approximately HK$18 million) and service costs of ¥211 million (equivalent to approximately HK$20 million) partially offset by current retirement benefits paid of ¥117 million (equivalent to approximately HK$11 million) recognised during the year.

Other long-term liabilities

The following table sets forth our other long-term liabilities as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Rental deposits received	124	139	146	14
Rental receipts in advance	247	208	192	18
	371	347	338	32

As at 31 March 2010, 2011 and 2012, we had long-term liabilities of ¥371 million, ¥347 million and ¥338 million (equivalent to approximately HK$32 million), respectively. Our other long-term liabilities mainly comprise rental deposits received and rental receipts received in advance for our investment properties.

Our other long-term liabilities decreased from ¥371 million as at 31 March 2010 to ¥347 million as at 31 March 2011 and further decreased to ¥338 million (equivalent to approximately HK$32 million) as at 31 March 2012, primarily due to amortisation of rental receipts in advance during the Relevant Period.

Provisions

The following table sets forth our provisions as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Asset retirement obligation[(1)]	3,064	3,315	3,413	321
Staff vacation payable[(2)]	1,309	1,318	1,460	137
	4,373	4,633	4,873	458

(1) Represents estimated costs arising from contractual obligations to a landlord to dismantle and remove leasehold improvements and certain fixed assets upon expiration of the lease, determined based on a fee quotation provided by the removal company.

(2) Calculated based on accumulated unused vacation as at the end of the reporting period, multiplied by the average daily salary of the relevant employee during the period.

As at 31 March 2010, 2011 and 2012, we had provisions of ¥4,373 million, ¥4,633 million and ¥4,873 million (equivalent to approximately HK$458 million), respectively. Our provisions comprise: (i) estimated cost to dismantle and remove leasehold improvements and certain fixed assets at the end of the lease contracts and (ii) staff vacation payables.

Our provisions increased from ¥4,373 million as at 31 March 2010 to ¥4,633 million as at 31 March 2011 and further increased to ¥4,873 million (equivalent to approximately HK$458 million) as at 31 March 2012. These increases were primarily due to the expansion of pachinko halls and an increase in the number of staff during the Relevant Period.

Key Financial Ratios

The following tables set forth our key financial ratios as at the dates or for the periods indicated.

	As at 31 March		
	2010	2011	2012
Current ratio[(1)]	0.6	0.8	1.1
Gearing ratio[(2)]	32.5%	22.8%	14.9%
Debt to equity ratio[(3)]	44.7%	24.1%	(5.7)%

(1) Current ratio represents current assets divided by current liabilities.

(2) Gearing ratio represents total borrowings divided by total assets.

(3) Debt to equity ratio is calculated by dividing net debt by total equity as at the end of each year.

	Year ended 31 March		
	2010	2011	2012
Interest coverage[1]	14.6	14.3	16.5
Return on equity[2]	28.1%	19.0%	17.0%
Return on assets[3]	12.1%	9.7%	10.2%

(1) Interest coverage represents profit before interest and tax divided by interest recorded during the year.
(2) Return on equity is calculated by dividing profit for the year by total equity as at the end of each year.
(3) Return on assets is calculated by dividing profit for the year by total assets as at the end of each year.

Current ratio

As at 31 March 2010, 2011 and 2012, our current ratio was 0.6, 0.8 and 1.1, respectively. Our current ratio as at 31 March 2011 improved to 0.8 compared to 0.6 as at 31 March 2010, primarily due to a decrease in borrowings after repayment of bank loans. Our current ratio as at 31 March 2012 rose to 1.1, because of an increase of bank and cash balances by ¥11,064 million (equivalent to approximately HK$1,040 million) and a decrease in short term borrowings by ¥13,785 million (equivalent to approximately HK$1,296 million) as compared to 31 March 2011.

Gearing ratio

As at 31 March 2010, 2011 and 2012, our gearing ratio was 32.5%, 22.8% and 14.9%, respectively.

Our gearing ratio fell from 32.5% as at 31 March 2010 to 22.8% as at 31 March 2011, and further decreased to 14.9% as at 31 March 2012, primarily due to a decrease of total borrowings by ¥16,252 million and ¥14,780 million (equivalent to approximately HK$1,389 million) for the years ended 31 March 2011 and 2012, respectively.

Debt to equity ratio

As at 31 March 2010, 2011 and 2012, our debt to equity ratio was 44.7%, 24.1%, (5.7)%, respectively. The decrease in our debt to equity ratio was primarily due to the repayment of borrowings and an increase in retained profits during the Relevant Period.

Interest coverage

Interest coverage was 14.6x, 14.3x, 16.5x for the years ended 31 March 2010, 2011 and 2012, respectively. Interest expenses decreased during the Relevant Period as a result of repayments of bank borrowings.

Return on equity

For the years ended 31 March 2010, 2011 and 2012, our return on equity was 28.1%, 19.0% and 17.0%, respectively.

Our return on equity decreased from 28.1% for the year ended 31 March 2010 to 19.0% for the year ended 31 March 2011. The decrease was due primarily to a 19.9% decrease in profit for the year. Our return on equity decreased by 2.0% to 17.0% for the year ended 31 March 2012 as compared to the prior year, primarily due to an increase in equity resulting from the profit for the year made during the year. Please see "— Discussion of Results of Operations" for further details on our profitability.

Return on assets

For the years ended 31 March 2010, 2011 and 2012, our return on assets was 12.1%, 9.7% and 10.2%, respectively.

Our return on assets decreased from 12.1% for the year ended 31 March 2010 to 9.7% for the year ended 31 March 2011, primarily due to a 19.9% decrease in profit for the year. Our return on assets increased by 0.5% to 10.2% for the year ended 31 March 2012 as compared to the prior year, primarily due to the decrease of property, plant and equipment and available-for-sale financial assets as compared to the prior year, partially offset by a 1.8% decrease in profit for the year. Please see "— Discussion of Results of Operations" for further details on our profitability.

Capital Expenditures

Our capital expenditures consist primarily of purchases of land, buildings including the cost of leasehold improvements, tools and equipment, motor vehicles and construction in progress. Our capital expenditures for the years ended 31 March 2010, 2011 and 2012 were ¥15,374 million, ¥7,630 million and ¥7,998 million (equivalent to approximately HK$751 million), respectively. Our capital expenditures during the Relevant Period were primarily related to the expansion of our pachinko operations.

The following table sets forth our capital expenditures for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Freehold land	—	225	4	0.4
Buildings including leasehold improvements	1,958	1,107	2,428	228
Tools and equipment	7,746	4,307	4,978	468
Motor vehicles	43	—	10	1
Construction in progress	5,627	1,991	578	54
	15,374	7,630	7,998	751

Capital commitments and contingent liabilities

Capital commitments

Our capital commitments primarily relate to commitments in pachinko hall construction contracts. The following table sets forth the total amount of our capital commitments as at the dates indicated:

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Contracted but not provided for[(1)]	3,532	883	218	20
Approved but not contracted for[(2)]	—	—	260	24
	3,532	883	478	44

(1) Contracts were signed but the contracted items have not been delivered as at each date of combined statements of financial position.

(2) Approved by internal budget, but no contract has been signed as at each date of combined statements of financial position.

Operating lease commitments

We lease certain land and buildings under operating leases. The leases typically run for an initial average period of 20 years. We have the option to cancel the leases on payment of a penalty at various stages of the initial lease periods depending on the terms of the specific leases concerned. The following table sets forth our commitments for operating lease payments under non-cancellable operating leases as at the dates indicated:

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Within one year	1,631	1,628	1,550	146
In the second to fifth year inclusive	5,600	4,513	3,166	298
Over five years	997	456	248	23
	8,228	6,597	4,964	467

Indebtedness

The following table sets forth our short-term and long-term borrowings and finance lease payables as at the dates indicated:

	As at 31 March				As at 31 May	
	2010	2011	2012		2012	
	¥	¥	¥	*HK$*[(1)]	¥	*HK$*[(2)]
			(in millions)			
Borrowings repayable:						
On demand or within one year	26,335	15,439	1,654	155	1,655	164
After one year but within two years	13,378	10,858	17,258	1,622	12,259	1,214
After two years but within five years	13,147	9,661	3,275	308	3,279	325
After five years	1,409	2,059	1,050	99	1,050	104
	54,269	38,017	23,237	2,184	18,243	1,807
Less: Amount due within one year included in current liabilities	(26,335)	(15,439)	(1,654)	(155)	(1,655)	(164)
Amount due after one year	27,934	22,578	21,583	2,029	16,588	1,643
Secured	25,252	38,006	15,331	1,441	15,337	1,519
Unsecured	29,017	11	7,906	743	2,906	288
	54,269	38,017	23,237	2,184	18,243	1,807
Finance lease payables:						
Amount due within one year included in current liabilities	1,932	1,373	1,187	112	1,190	118
Amount due after one year	3,277	3,074	2,331	219	2,133	211
	5,209	4,447	3,518	331	3,323	329

(1) Translated into Hong Kong dollars at the rate of ¥10.64 to HK$1.00, the exchange rate prevailing on 30 March 2012.

(2) Translated into Hong Kong dollars at the rate of ¥10.10 to HK$1.00, the exchange rate prevailing on 31 May 2012.

On 15 September 2011, our subsidiary, DYNAM Co., Ltd., entered into a loan agreement with a syndicate of lenders that amended a commitment line agreement dated 31 March 2011, which provided for a revolving loan facility in an amount of up to ¥25,000 million (the "Revolving Loan Facility"). The Revolving Loan Facility consists of two loans, and the commitment of the

lenders to provide loans under the Revolving Loan Facility is available for a three-year period from the execution date of the original loan agreement. Borrowings under the Revolving Loan Facility bear interest at the rate of 1.0% per annum over the interest rate for the corresponding loan term published by the Japanese Bankers Association for euroyen TIBOR, subject to adjustment from time to time. The loans under the Revolving Loan Facility have a term of one, two or three weeks or one, two, three or six months, subject to adjustment. Loans may not be prepaid without prior written consent of all lenders and the agent for the lenders. The Revolving Loan Facility is guaranteed by DYNAM JAPAN HOLDINGS Co., Ltd. pursuant to a guarantee agreement dated 31 March 2011 as amended (the "Guarantee").

The Revolving Loan Facility and the Guarantee contain certain financial covenants that, among other things, require the borrower and guarantor to maintain specified financial ratios related to net assets, and contain affirmative and negative operating covenants. The borrower is required to maintain net assets at each year end and second quarter end at not less than 75% of the higher of the non-consolidated net assets of the previous settlement term end or the non-consolidated net assets as at 31 March 2011. The guarantor is required to maintain net assets at each year end and second quarter end at not less than 75% of the higher of the non-consolidated net assets of the previous settlement term end or the non-consolidated net assets as at 31 March 2011. Affirmative covenants require each of the borrower and guarantor to:

- maintain permits necessary to conduct its business and continue its business in compliance with applicable laws;
- make no changes in its principal business; and
- refrain from subordinating its payment obligations under the Revolving Loan Facility, except as required by law.

Negative covenants limit the ability of each of the borrower and guarantor to:

- enter into any merger or corporate reconstruction arrangement;
- exchange or transfer its shares;
- establish a trust arrangement; or
- make certain assignments of all or part of its assets to a third party.

The Revolving Loan Facility also includes certain customary events of default. As at 31 May 2012, ¥11,000 million (equivalent to approximately HK$1,089 million) of the Revolving Loan Facility had been drawn down and ¥14,000 million (equivalent to approximately HK$1,386 million) remained available to be drawn down.

We have a number of additional bank borrowings, with both floating and fixed interest rates. As at 31 May 2012, our fixed interest rate bank borrowings bore interest at rates ranging from 2.0% to 2.7% per annum. All of our bank borrowings were denominated in Japanese yen. Our bank borrowings are subject to a number of customary affirmative and negative covenants, as well as financial ratios with which we must comply. Generally the affirmative covenants for these bank borrowings require the borrower to maintain net assets at each year end and second quarter end at not less than 75% of the higher of the non-consolidated net assets of the previous year end or the fiscal year end immediately prior to entering into the relevant agreement. Negative covenants limit our ability to: transfer assets to parties other than the guarantor or wholly owned subsidiary of the guarantor, transfer assets of ¥1,000 million or more,

post ordinary losses for two consecutive periods, and enter into reorganisations, mergers, spin-offs, stock swaps and transfers or trusts which may influence fulfilment of our payment obligations under the terms of the loan.

During the Relevant Period and as at the Latest Practicable Date, we have been, and currently are, in compliance with all of the covenants under all of our bank borrowings. Our Finance Department monitors our maintenance of the specified financial ratios and compliance with the other covenants at the end of each fiscal year and second quarter.

As at 31 May 2012, for the purpose of this indebtedness statement, we had total bank borrowings of approximately ¥18,243 million (equivalent to approximately HK$1,807 million), of which the bank borrowings of approximately ¥15,337 million (equivalent to approximately HK$1,519 million) were secured by our property, plant and equipment, other long-term assets and prepayments and other receivables and the remaining bank borrowings of approximately ¥2,906 million (equivalent to approximately HK$288 million) were unsecured. We also had total finance lease payables of approximately ¥3,323 million (equivalent to approximately HK$329 million), of which approximately ¥1,190 million (equivalent to approximately HK$118 million) was to be repaid within one year.

At the close of business on 31 May 2012, we had a total amount of approximately ¥25,000 million (equivalent to approximately HK$2,475 million) of banking facilities available to us, of which approximately ¥14,000 million (equivalent to approximately HK$1,386 million) was unutilised.

Except as indicated above, and apart from intra-group liabilities, normal trade payables and certain other commitments and contingent liabilities as disclosed in this document, we did not have, as at 31 May 2012, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, acceptance creditors, loans or other similar indebtedness, liabilities or acceptances, pledges, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Since 31 May 2012, there has not been a material adverse change in our indebtedness and contingent liabilities.

In this section, amounts denominated in Hong Kong dollars as at 31 May 2012 are translated at the rate of ¥10.10 to HK$1.00, which was the exchange rate prevailing on 31 May 2012.

Off-Balance Sheet Arrangements

As at the Latest Practicable Date, we have not entered into any off-balance sheet transactions other than the interest rate swap contracts.

Quantitative and Qualitative Disclosures About Market Risk

Foreign currency risk

We have minimal exposure to foreign currency risk as most of our business transactions, assets and liabilities are principally denominated in the functional currencies of our subsidiaries. We currently do not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. We will monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Price risk

Our available-for-sale financial assets and financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Therefore, we are exposed to equity security price risk mainly through our investment in listed equity securities and unlisted convertible bonds. These investments are held from a viewpoint of business strategy, not for short term trading purposes. We will not sell these investments frequently and we periodically review the fair value of these investments as well as the financial condition of investees.

Credit risk

The carrying amount of our bank and cash balances, derivative financial instruments, trade receivables such as commission income from vending machines, and other receivables such as G-prize refundable, and amounts due from related companies included in our statement of financial position represents our maximum exposure to credit risk in relation to our financial assets. We have policies in place to ensure that our third party vending machine operators have appropriate credit histories.

The credit risk on bank and cash balances and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In order to minimise credit risk, our management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that our credit risk is significantly reduced.

Due to the above factors, we have no significant concentration of credit risk.

Liquidity risk

Our policy is to regularly monitor our liquidity requirements, our compliance with lending covenants and relationships with our bankers to ensure that we maintain sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

Interest rate risk

Our exposure to interest rate risk arises from bank deposits, bank loans, syndicated loans and amounts due from and to related companies. These deposits and borrowings bear interest at variable rates.

During the Relevant Period, we have used interest rate swaps in order to mitigate our exposure associated with fluctuations in interest rates.

DIVIDEND POLICY

During the Relevant Period we declared and paid dividends in the amount of ¥7,245 million, ¥4,312 million and ¥8,052 million (equivalent to approximately HK$757 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

FINANCIAL INFORMATION

We intend to distribute dividends on an interim and year-end basis, subject to the availability of Distributable Amount and compliance with applicable laws and regulations in Japan and Hong Kong. Any dividends will be determined by our Board of Directors taking into consideration the interim and final results of our Company. We currently intend to recommend dividends totaling approximately 45% to 50% of our consolidated profit for the year (calculated in accordance with IFRS) for the year ending 31 March 2013, which we expect to declare by November 2012 and June 2013. For further information, please see "— 2. Japanese Corporation Law — (e) Dividends and distributions" in Appendix III to this document. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant. There is no assurance that dividends of any amount will be declared or distributed in any year.

Pursuant to the Companies Act and our Articles of Incorporation, through a resolution of the Board of Directors (unless such dividend is proposed to be paid in kind (other than Shares, bonds (including convertible bonds) and share options issued by our Company, which the Companies Act prohibits) without giving Shareholders the right to demand distribution in cash, in which case a special Shareholder resolution is required), we may declare dividends to our Shareholders subject to a limit equal to the Distributable Amount then existing. Pursuant to the Companies Act and the relevant Ordinance of the Ministry of Justice of Japan, the Company's Distributable Amount is calculated based on the retained earnings recorded in the Company's non-consolidated financial statements prepared in accordance with JGAAP with certain adjustments (including the deduction of the book value of any treasury Shares held by the Company). For further information on the Distributable Amount, please see "— 2. Japanese Corporation Law — (e) Dividends and distributions — (i) Restriction on distribution of dividends" in Appendix III.

We are required under Japanese law to withhold tax prior to payment of dividends. In general, (i) individual Shareholders interested in less than 3% of the entire issued Shares of our Company who are not Japanese residents; and (ii) corporate Shareholders (established in Japan or elsewhere) are subject to a withholding tax of 7% and 7.147%, respectively, for dividend due and paid on or before 31 December 2012 and 31 December 2013. For further information on Japanese withholding taxes, see "Material Shareholders' Matters under Japanese Law — Dividends — Japanese withholding tax for dividend payments". Shareholders who are either residents in Hong Kong or corporations established in Hong Kong without any permanent establishment in Japan are entitled to a reduced withholding tax rate of not exceeding 10% (or not exceeding 5% for corporate Shareholders interested in 10% or more of the voting Shares of our Company for the six months ending on the record date for dividend distribution) under the Hong Kong-Japan Tax Treaty. See "Material Shareholders' Matters under Japanese Law — Dividends — Japanese withholding tax for dividend payments — The Hong Kong-Japan Tax Treaty" for the application procedures for such reduced withholding tax rate.

DISTRIBUTABLE AMOUNTS

Dividends can be paid out from the Distributable Amount which is determined in accordance with the Companies Act. We had a Distributable Amount of approximately ¥49,801 million (equivalent to approximately HK$4,681 million) as at 31 March 2012.

DIRECTORS' REMUNERATION

No emoluments were paid by us to the Directors during the years ended 31 March 2010 and 2011, because the Director emoluments were borne by Dynam Holdings and not charged to us. This practice was discontinued upon our incorporation in September 2011. Directors'

emoluments of ¥48.9 million (equivalent to approximately HK$4.6 million) was paid to the Directors during the year ended 31 March 2012. We expect to incur approximately ¥67.7 million (equivalent to approximately HK$6 million) per annum in emoluments after the [●].

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since 31 March 2012 (being the date to which our latest combined financial information was prepared, as set out in the Accountants' Report in Appendix I to this document) and up to the date of this document.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

[●], an independent property valuer, has valued interests of our properties in Japan as at 30 June 2012 at ¥67,422 million.

Our properties in Japan were valued at ¥67,422 million (equivalent to approximately HK$6,552 million) as at 30 June 2012 by [●]. There is a revaluation deficit, representing the excess of the carrying value of the properties over the market value, approximately ¥11,734 million (equivalent to approximately HK$1,140 million) of which is not included in our combined financial statements for the year ended 31 March 2012. In accordance with our accounting policy, all properties are stated at cost less accumulated depreciation and impairment except for investment property which is measured at fair value.

Disclosure of the reconciliation of the property interest of our Group and the valuation of such property interests as required under [●] is set out below.

	(in millions)	
	¥	***HK$***[(1)]
Carrying amount of properties of our Group as at 31 March 2012 as set out in the Accountants' Report in Appendix I to this document — Investment properties, freehold land and buildings	78,595	7,638
Movements from 1 April 2012 to 30 June 2012 (unaudited)		
Add: Additions during the period	1,842	179
Less: Depreciation during the period	(1,281)	(125)
Carrying amount of properties of our Group as at 30 June 2012	79,156	7,692
Valuation deficit	(11,734)	(1,140)
Valuation of properties as at 30 June 2012	67,422	6,552

(1) Translated in to Hong Kong dollars at the rate of ¥10.29 to HK$1.00, which was the exchange rate prevailing on 29 June 2012 (i.e. the last business day in June 2012). No representation is made that the Japanese yen amounts could have been, or could be, converted into Hong Kong dollars, or vice versa, at such rates or at any other rates on such date or on any other dates.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Our Controlling Shareholders

Mr. Sato is our executive Director, chairman of our Board and Chief Executive Officer. Through his controlling interest of approximately 99.9% in Rich-O, Mr. Sato will control approximately 34.8% of our entire issued share capital upon the completion of [●] (without taking into account the Shares that may be issued and allotted pursuant to the exercise of the [●]). The Sato Family Members consist of Mrs. Keiko SATO, Mr. Kohei SATO, Mrs. Yaeko NISHIWAKI, Mr. Masahiro SATO, Mr. Shigehiro SATO and Mr. Kiyotaka SATO, each being a family member of, and an associate of, Mr. Sato and each other under the [●].

Hence, Mr. Sato, Rich-O, and the Sato Family Members will together be entitled to exercise and control approximately 68.2% of our entire issued share capital upon [●] (without taking into account the Shares that may be issued and allotted pursuant to the exercise of the [●]), representing over 30% of the voting rights at the Shareholders' meetings of our Company.

One Asia

Immediately following the completion of the [●] (without taking into account the Shares that may be issued and allotted pursuant to the exercise of the [●]), One Asia will be interested in approximately 10.7% of our entire issued share capital and will be a substantial Shareholder of our Company. The Shares that One Asia is interested in were donated by Mr. Sato but, as confirmed by our Japan Legal Adviser, such donation does not automatically confer him any influence over the management and operation of One Asia.

One Asia is a general incorporated foundation (*ippan zaidan houjin* 一般財団法人) established under the GIA/GIF Law on 21 December 2009 to promote harmony and cooperation among Asian communities. To this end, One Asia provides funding to universities and research bodies that engage in Asian studies, supports non-profit organisations in raising cultural awareness, and awards scholarships to Asian students.

One Asia is interested in the Shares in our Company for equity holding purposes. Such equity interests are an important ancillary function for One Asia that forms its main source of income and provides reliable liquidity in achieving its primary objectives.

Under the GIA/GIF Law, a general incorporated foundation (*ippan zaidan houjin* 一般財団法人) is a non-profit organisation to which the concept of shareholding does not apply. Instead, the primary decision-making body of a general incorporated foundation (*ippan zaidan houjin* 一般財団法人) is the board of councillors. Out of six members in One Asia's board of councillors, two are connected persons to our Controlling Shareholders, namely, Mr. Kohei SATO, the brother of Mr. Sato and a Sato Family Member, and Mr. Ushijima, our non-executive Director. All other members in the board of councillors are independent third parties to our Controlling Shareholders, representing a majority in the board of councillors.

Mr. Sato is the chairman (*rijicho* 理事長) of One Asia, primarily responsible for its day-to-day management. However, under the GIF Law, Mr. Sato's acts in One Asia are subject to the oversight and supervision of the board of councillors, which is primarily responsible for the appointment of the chairman (*rijicho* 理事長). As Mr. Sato has no control over One Asia's board of councillors, the majority of which is represented by independent third parties to Mr. Sato, he has no discretion over the decision-making process of One Asia.

On the basis that Mr. Sato, Rich-O and the Sato Family Members have no control over One Asia's general decision-making process and therefore have no influence in the exercise of its voting rights in our Company. One Asia, though being a substantial Shareholder, is not a Controlling Shareholder of our Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operations retained by our Controlling Shareholders

The principal business venture of Mr. Sato and the Sato Family Members is our Group. Rich-O is an investment holding company and the principal business asset of which is its shareholding in our Group. Other than their respective interests in our Group, the only other material business venture of our Controlling Shareholders is DYH. DYH is the predecessor of our Company and the former holding company of our operating subsidiaries. As at the Latest Practicable Date, DYH was owned as to approximately 26.8%, 15.8%, and 40.9%, respectively, by Mr. Sato, Rich-O and the Sato Family Members in aggregate (without taking into account any outstanding treasury DYH Shares).

Our Company was incorporated under the Companies Act on 20 September 2011 by DYH as part of our Reorganisation, the procedures of which are set out in the section headed "History, Development and Reorganisation" in this document. As a result of the Reorganisation, the pachinko hall operations of our Controlling Shareholders were consolidated into our Company. Certain companies and businesses (the "Retained Businesses") held by our Controlling Shareholders through DYH were excluded from the Reorganisation and were not consolidated into our Group. These Retained Businesses formed the Remaining DYH Group. By virtue of their controlling interests in DYH, the Remaining DYH Group is an associate of each of our Controlling Shareholders.

Following the Reorganisation, all companies and businesses of our Controlling Shareholders related to, or incidental to, the operation of pachinko halls in Japan were transferred to our Company, and our Controlling Shareholders will be engaged in the Retained Businesses, which are separate and distinct from our pachinko hall operations business. None of the members of the Remaining DYH Group is engaged in our primary business of operating pachinko halls. Our Controlling Shareholders currently have no intention to inject the Retained Businesses into our Group. Summarised below are the details of the Retained Businesses:

Entity	Ownership	Retained Businesses
Humap	wholly-owned by DYH [(1)]	• operation and management of food and beverage retail outlets next to our pachinko halls • operation and management of spaghetti restaurants • provision of cleaning services at our pachinko halls • sales of coffee, pastry and tobacco products to our Group as general prizes • sales of coffee via vending machines and coffee wagons at our pachinko halls • provision of accounting and payroll administrative services to the members of the Remaining DYH Group
Trusty Power	wholly-owned by DYH [(1)]	• provision of human resources recruitment, employee training and job placement services to the members of the Remaining DYH Group
Dynam Investment	wholly-owned by DYH [(1)]	• investment holding of Beijing GEO, Erin International, and Rich-O Korea

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Entity	Ownership	Retained Businesses
		• sales of coffee beans roasted and supplied by Beijing GEO to ITP customers
		• sales of LCD monitors supplied by Rich-O Korea to ITP customers
		• operations and management of hot-stone sauna parlour within the site of our pachinko hall at Sagamihara (相模原市), Kanagawa Prefecture (神奈川県)
Beijing GEO	indirectly wholly owned by DYH through Dynam Investment (1)	• roasting and sales of coffee beans to our Group and ITP customers
Erin International .	indirectly owned as to 87.5% by DYH through Dynam Investment (1, 2)	• provision of freight forwarding services to ITP customers
Rich-O Korea . . .	indirectly owned as to approximately 85.2% by DYH through Dynam Investment (1, 3)	• trading of LCD monitors to ITP customers
P Leasing	wholly-owned by DYH (1)	• provision of instalment sales services of new pachinko and pachislot game machines to ITP customers
P Insurance	wholly-owned by DYH (1)	• provision of insurance services to ITP customers
Business Partners	wholly-owned by DYH (1)	• provision of cleaning services at our office premises
Genghis Khan . . .	wholly-owned by DYH (1)	• provision of travel services to our Group and ITP customers
		• handling agent for MIAT Mongolian Airlines in Japan
		• provision of Japanese to Mongolian translation services and vice versa
X-Golf	wholly-owned by DYH (1)	• sales of virtual golfing machines and software
		• operation of a virtual golfing amusement centre

(1) As at the Latest Practicable Date, DYH was owned as to approximately 26.8%, 15.8% and 40.9% by Mr. Sato, Rich-O and the Sato Family Members in aggregate, respectively (without taking into account any outstanding treasury DYH Shares).

(2) As at the Latest Practicable Date, Erin International was owned as to 87.5% and 12.5%, respectively, by Dynam Investment and Mr. Y. Erkeinbayar, Mr. D. Tserennadmid and Mr. D. Derin in aggregate, each being an Independent Third Party.

(3) As at the Latest Practicable Date, Rich-O Korea was owned as to approximately 85.2%, 7.4% and 7.4% by Dynam Investment, Sodiff B&F Co., Ltd.* (ソディフB&F社) and Mr. Guang-Huan KIM (金光煥), respectively. Each of Sodiff B&F Co., Ltd. (ソディフB&F社) and Mr. Guang-Huan KIM (金光煥) is an Independent Third Party.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

No competition and clear delineation of business

Our Directors, including our independent non-executive Directors, are of the view that to the best of their knowledge, belief and information, as at the Latest Practicable Date, none of our Controlling Shareholders and none of their respective associates had interests in businesses, other than our business, which compete, or are likely to compete, either directly or indirectly, with our business.

Our business

We are the second largest pachinko hall operator in Japan based on the total value of pachinko balls and pachislot tokens rented in 2010 and the largest in terms of number of halls according to Yano Research. By contrast with the Retained Businesses carried out by the Remaining DYH Group, we are principally engaged in the operation of a network of 355 pachinko halls in 46 prefectures across Japan as at the Latest Practicable Date principally under our *DYNAM* (ダイナム), *Yuttari Kan* (ゆったり館) and *Shinrai no Mori* (信頼の森) brands.

Our Directors, including our independent non-executive Directors, are of the view that the Retained Businesses are separate and distinct from our business and that there is a clear separation of our business and the Retained Businesses carried out by the Remaining DYH Group. In particular, one of the objectives of our Reorganisation was to establish clear delineation between the businesses carried out by our Group and the Remaining DYH Group via separate and distinct corporate entities. Hence, following the completion of our Reorganisation, we do not carry out any activities that involve the ownership, management and operation of the Retained Businesses. On the basis that there is clear delineation between our business and the Retained Businesses, our Directors believe that our business will continue to be independent as there is no actual or potential competition, either directly or indirectly, exists between our Group and the Remaining DYH Group.

Our business differs from the Retained Businesses in the following key aspects:

Humap

Upon the completion of the Reorganisation, Humap is principally engaged in three business segments, namely (i) operation and management of food and beverage retail outlets; (ii) provision of cleaning services at our pachinko halls and (iii) provision of accounting and payroll administrative services. For each of the years ended 31 March 2010, 2011 and 2012, the turnover of Humap was approximately ¥8,126 million, ¥7,529 million and ¥7,601 million (equivalent to approximately HK$714 million), respectively, and its net profits approximately were ¥242 million, ¥160 million, ¥204 million (equivalent to approximately HK$19 million), respectively, for the same periods, according to the information provided by our Controlling Shareholders and determined with reference to JGAAP. According to the information provided by our Controlling Shareholders, the revenue of Humap generated from our Group in aggregate for each of the years ended 31 March 2009, 2010 and 2011 as compared with the total revenue of Humap during the same periods was approximately 64.4%, 66.9%, and 64.7%, respectively.

The food and beverage retail outlets operated by Humap are principally located next to the sites of our pachinko halls, targeted at our customers. Although Humap operates 325 food and beverages retail outlets on premises leased from our Group, its food and beverage operation is separate and distinct from our business as such lease arrangements are conducted in the ordinary course of our business on normal commercial terms. Apart from these food and beverage retail outlets, Humap also operates a chain of spaghetti restaurants under the brand *Old Spaghetti Factory*, which is operated through franchise agreements with Independent Third

Parties. These restaurants are located in Kobe (神戸市) and Nagoya (名古屋市), distinct from our pachinko hall operations and targeted at general customers with no particular focus on our pachinko customers.

During the Relevant Period, we also purchased from Humap coffee, pastry and tabacco products as general prizes for our halls. Humap also conducted sales of coffee via vending machines and coffee wagon services at our pachinko halls under royalty arrangements with Dynam.

The cleaning services of Humap were only offered to our Group during the Relevant Period. These cleaning services arrangements are conducted in the ordinary course of our business on normal commercial terms. In respect of cleaning services, our Group is the only customer of Humap during the Relevant Period. According to information provided by our Controlling Shareholders, Humap has, prior to the Relevant Period, provided cleaning services to Independent Third Parties and is expected to secure new customers upon the [●].

Our Directors confirm that our Group does not, and does not intend to, engage in the operation of food and beverage retail outlets, sales of coffee and pastry products and provision of cleaning services. Upon [●], we expect to continue to engage Humap in offering food and beverage services to our customers and in the provision of cleaning services at our pachinko halls.

The accounting and payroll administrative services of Humap are only provided to members of the Remaining DYH Group. Similarly, we operate an in-house accounting department, the services of which are confined to members of our Group. As both our Group and Humap do not, and have no plans to, provide accounting and payroll administrative services to customers other than our Group and the Remaining DYH Group, there is no overlap of service targets, and therefore no competition, between our Group and Humap.

On the basis that (i) our Group does not engage in the operation of food and beverage retail outlets and the provision of cleaning services and (ii) the accounting and payroll administrative services provided by our Group and Humap have separate service targets, our Directors believe that no actual or potential competition, either directly or indirectly, exists between our Group and Humap.

See "Connected Transactions" in this document for further details of our business arrangements with Humap.

Trusty Power

Upon the completion of the Reorganisation, Trusty Power is principally engaged in the provision of human resources recruitment, employee training and job placement services. For each of the years ended 31 March 2010, 2011 and 2012, the turnover of Trusty Power was approximately ¥877 million, ¥791 million and ¥542 million (equivalent to approximately HK$51 million), respectively, and its net profits were approximately ¥41 million, ¥39 million and ¥25 million (equivalent to approximately HK$2 million), respectively, for the same periods, based on the information provided by our Controlling Shareholders and determined with reference to JGAAP.

Prior to our Reorganisation, Trusty Power provided services to all members of the DYH Group, which include members of our Group. As part of our Reorganisation, the Relevant Trusty Power Secondees, which had been dedicated to serving members of our Group, were transferred to Dynam, our wholly-owned subsidiary. As a result, Trusty Power ceased to provide services to our Group. Although both Dynam and Trusty Power are engaged in the provision of

human resources recruitment, employee training and job placement services, such services are offered to the respective members of our Group and the Remaining DYH Group only. On the basis that there is no overlap in the service targets of Dynam and Trusty Power, we do not compete, and are not likely to compete, either directly or indirectly, with Trusty Power.

Dynam Investment

Upon the completion of the Reorganisation, Dynam Investment is principally engaged in four business segments, namely (i) the investment holding of Beijing GEO, Erin International, and Rich-O Korea; (ii) sales of coffee beans roasted and supplied by Beijing GEO; (iii) sales of LCD monitors supplied by Rich-O Korea and (iv) operations and management of a hot-stone sauna parlour. For each of the years ended 31 March 2010, 2011 and 2012, the turnover of Dynam Investment was approximately ¥285 million, ¥387 million and ¥446 million (equivalent to approximately HK$42 million), respectively, and its net profits were approximately ¥23 million, ¥50 million and ¥95 million (equivalent to approximately HK$9 million), respectively, for the same periods, based on the information provided by our Controlling Shareholders and determined with reference to JGAAP.

Each of Beijing GEO, Erin International and Rich-O Korea operates separate and distinct businesses from our business. See "— Beijing GEO", "— Erin International" and "— Rich-O Korea" in this section below for the clear delineation between our business and the businesses of these companies. The coffee beans and LCD monitors sold by Dynam Investment are supplied by Beijing GEO and Rich-O Korea, respectively.

Dynam Investment operates a hot-stone sauna parlour at the site of one of our pachinko halls located in Sagamihara (相模原市), Kanagawa Prefecture (神奈川県). Although this leisure facility is operated on premises leased from our Group, this arrangement is conducted in the ordinary course of our business and on normal commercial terms. Our Directors confirm that our Group does not, and does not intend to, engage in the business of operating hot-stone saunas upon the [●]. We will continue to engage Dynam Investment in operating sauna facilities at our pachinko hall in Sagamihara (相模原市). In the event that we decide to provide additional leisure facilities to enhance the gaming experience of our pachinko players, we will solicit Dynam Investment or other Independent Third Party service providers.

On the basis that we do not provide any services similar to, or competing with, the hot-stone sauna parlour operated by Dynam Investment, our Directors are of the view that it is highly unlikely that there is or will be any actual or potential competition between Dynam Investment and our Group.

See "Connected Transactions" in this document for further information on the business arrangements between Dynam Investment and our Group.

Beijing GEO

Upon the completion of the Reorganisation, Beijing GEO is principally engaged in the roasting and sales of coffee beans. For each of the three financial years ended 31 December 2009, 2010 and 2011, the turnover of Beijing GEO was approximately RMB5 million, RMB10 million and RMB14 million, respectively, and its net loss were approximately RMB3 million, RMB3 million and RMB1 million, respectively, for the same periods, based on the information provided by our Controlling Shareholders and determined with reference to JGAAP.

The customers of Beijing GEO comprise of beverage manufacturers, suppliers and beverage retail outlets in the PRC, all of which are Independent Third Parties. Beijing GEO has an established operation targeted at Independent Third Party customers.

We do not expect to engage in the business of coffee bean roasting upon the [●]. On the basis that Beijing GEO has a separate and distinct business operation that bears no similarity to our business, our Directors are of the view that Beijing GEO does not compete, and is not likely to compete, either directly or indirectly, with our Group.

Erin International

Upon the completion of the Reorganisation, Erin International carries on an operation of international freight forwarding services. For each of the three financial years ended 31 December 2009, 2010 and 2011, the turnover of Erin International was approximately MNT1,359 million, MNT2,445 million and MNT5,456 million, respectively, its net loss for the year ended 31 December 2009 were approximately MNT56 million, and its net profits for each of the financial years ended 31 December 2010 and 2011 were approximately MNT80 million and MNT72 million, respectively, based on the information provided by our Controlling Shareholders and determined with reference to JGAAP. Erin International provides freight forwarding services to Independent Third Party customers and has no business linkage with our Group. The principal business of Erin International has no relevance to the business of our Group, and therefore does not compete with our business.

Rich-O Korea

Upon the completion of the Reorganisation, Rich-O Korea is principally engaged in two business segments, namely, (i) the trading of LCD monitors; and (ii) provision of after-sales services in respect of LCD monitors. For each of the years ended 31 March 2010, 2011 and 2012, the turnover of Rich-O Korea was approximately KRW1,613 million, KRW350 million and nil, respectively, its net profits for each of the years ended 31 March 2010 and 2011 were approximately KRW12 million and KRW8 million, respectively, and its net loss for the financial year ended 31 March 2012 were approximately KRW130 million, based on the information provided by our Controlling Shareholders and determined with reference to JGAAP.

Our Controlling Shareholders have confirmed that, during the Relevant Period, Rich-O Korea did not conduct any business activities with any third party other than our Group. Sales to our Group were made through Dynam Investment. According to our Controlling Shareholders, the sales of LCD monitors to our Group ceased in March 2011 due to changes in Rich-O Korea's business direction, as a result of which Rich-O Korea is now looking to expand its customer base in South Korea and the PRC. As at the Latest Practicable Date, there was no business arrangement between Rich-O Korea and our Group. We currently intend to engage an Independent Third Party LCD monitor manufacturer based in South Korea to provide after-sales services to our LCD monitors.

Although Rich-O Korea no longer supplies LCD monitors to us, we do not plan to engage in the trading of LCD monitors. In the event that we are presented with marketing and advertising needs that require additional LCD monitors, we will secure supplies from other Independent Third Party suppliers or traders.

On the basis that (i) we do not engage in businesses similar to, or in competition with, the sales of LCD monitors; and (ii) there is no business arrangement between our Group and Rich-O Korea upon the [●], our Directors are of the view that no actual or potential competition, either directly or indirectly, exists between Rich-O Korea and our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

P Leasing

Upon the completion of the Reorganisation, P Leasing is principally engaged in the provision of instalment sales services of new pachinko and pachislot game machines. For each of the years ended 31 March 2010, 2011 and 2012, the turnover of P Leasing was approximately ¥1.8 billion, ¥2.1 billion and ¥1.5 billion (equivalent to approximately HK$141 million), respectively, its net profits for the year ended 31 March 2010 were approximately ¥127 million, and its net loss for each of the years ended 31 March 2011 and 2012 was approximately ¥156 million and ¥114 million (equivalent to approximately HK$11 million), according to the information provided by our Controlling Shareholders and determined with reference to JGAAP.

Under its current business model, P Leasing purchases new pachinko and pachislot game machines selected by its customers, who in turn purchase such machines from P Leasing through instalment payments. Machines are purchased by P Leasing directly from manufacturers and the legal ownership of the machines rest with the customers commencing from the settlement of the last instalment payment. The business model of P Leasing has a limited degree of similarity with the business of Kanto Daido, our wholly-owned subsidiary, which primarily engages in the trading of second-hand pachinko and pachislot game machines.

Notwithstanding the limited correlation, our Directors are of the view that there is clear delineation between the businesses of P Leasing and Kanto Daido on the basis of the following grounds:

(i) **business model** — unlike P Leasing, which offers the option of instalment payments to all of its customers, Kanto Daido does not provide any credit facility and requires one-off settlement of payments;

(ii) **source of income** — P Leasing relies on the interest incurred from instalment payments for its income whereas Kanto Daido attributes its turnover to the difference between the purchase price and selling price of second-hand pachinko and pachislot machines;

(iii) **business segment** — P Leasing primarily focuses on the trading of new pachinko and pachislot game machines while Kanto Daido is principally engaged in the trading of second-hand, used pachinko and pachislot game machines. It is highly unlikely that P Leasing will expand its business into the second-hand market that Kanto Daido operates in as it does not possess the requisite license for the trading of second-hand machines in Japan; and

(iv) **significance** — our principal business is the operation of pachinko halls across Japan. The trading business of Kanto Daido is ancillary to our principal business and accounted for an insignificant portion of our total revenue during the Relevant Period. Hence, any actual or potential competition between P Leasing and Kanto Daido, though highly unlikely, would be immaterial to the overall operation and financial position of our Group.

On the basis of the clear delineation in the business models, business segments, and sources of income of P Leasing and Kanto Daido and the limited significance of Kanto Daido as compared to our principal business of pachinko halls operation, our Directors are of the view that P Leasing does not compete, and is not likely to compete, either directly or indirectly, with our business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

During the Relevant Period, P Leasing and Kanto Daido entered into certain related party transactions which involved P Leasing providing financing to Kanto Daido for the acquisition of second-hand game machines. Such transactions were one-off transactions entered into when Kanto Daido was a wholly-owned subsidiary of P Leasing, and are not expected to continue upon the [●]. Our Directors and our Controlling Shareholders confirmed that upon the [●], P Leasing and Kanto Daido will maintain separate and distinct business models in the manner described above.

In addition, we restructured our machines sourcing functionality with the incorporation of P Trading on 1 July 2010. Our current business model involves Dynam purchasing pachinko and pachislot game machines directly from manufacturers and P Trading providing advisory and liaison services in connection therewith. As a result, P Leasing has not purchased pachinko and pachislot game machines for our Group since 1 July 2010.

P Insurance

Upon the completion of the Reorganisation, P Insurance is principally engaged in the provision of insurance services. For each of the years ended 31 March 2010, 2011 and 2012, the turnover of P Insurance was approximately ¥104 million, ¥120 million and ¥102 million (equivalent to approximately HK$10 million), respectively; its net profits for each of the years ended 31 March 2010 and 2011 were approximately ¥8 million and ¥12 million, respectively, and its net loss for the financial year ended 31 March 2012 was approximately ¥14 million (equivalent to approximately HK$1 million), based on the information provided by our Controlling Shareholders and determined with reference to JGAAP. During the Relevant Period, P Insurance provided insurance services to Independent Third Parties only. We currently rely on insurance agencies other than P Insurance for insurance coverage, and we do not anticipate establishing any business relationship with P Insurance. The principal business of P Insurance has no relevance to, and therefore does not compete with, our business.

Business Partners

Upon the completion of the Reorganisation, Business Partners is principally engaged in the provision of cleaning services. Business Partners was incorporated on 11 January 2011. For the year ended 31 March 2012, the turnover of Business Partners was approximately ¥56 million (equivalent to approximately HK$5 million), and its net profit was approximately ¥0.5 million (equivalent to approximately HK$0.05 million), according to the information provided by our Controlling Shareholders and determined with reference to JGAAP.

Our Controlling Shareholders confirm that, as at the Latest Practicable Date, the operating revenue of Business Partners generated since its incorporation was all attributable to the provision of cleaning services at our office premises. Nevertheless, this arrangement is conducted in the ordinary course of our business and on normal commercial terms. In particular, Business Partners is a start-up company which has yet developed a diverse customer base. Our Controlling Shareholders expect to expand the scale of its operations in due course, targeting at Independent Third Party customers other than our Group.

Our Directors confirm that our Group does not, and does not intend to, engage in the provision of cleaning services. Upon the [●], we will continue to engage Business Partners in providing cleaning services at our office premises.

On the basis that we do not engage in any activity that is similar to, or in competition with, the business of Business Partners, our Directors are of the view that we do not compete, and are not likely to compete, either directly or indirectly, with Business Partners.

See "Connected Transactions" for further information on the business arrangements between Business Partners and our Group.

Genghis Khan

Upon the completion of the Reorganisation, Genghis Khan is principally engaged in the provision of travel services. For each of the years ended 31 March 2010, 2011 and 2012, the turnover of Genghis Khan was ¥445 million, ¥415 million and ¥596 million (equivalent to approximately HK$56 million), respectively, and its net profits were ¥13 million, ¥17 million and ¥27 million (equivalent to approximately HK$3 million), respectively, for the same periods, based on the information provided by our Controlling Shareholders and determined with reference to JGAAP.

Genghis Khan has a scalable operation in Japan with a primary focus on the provision of travel services to and from Mongolia. It is the handling agent for MIAT Mongolian Airlines in Japan. During the Relevant Period, we have engaged Genghis Khan in providing travel services to our employees on business trips. Our Controlling Shareholders confirmed that, during the Relevant Period, our Group was not the sole customer of Genghis Khan and the revenue it generated from our Group compared to its revenue generated from third parties was insignificant.

Our Directors confirm that our Group does not, and does not intend to, engage in the provision of travel services. Upon the [●], we will continue to engage Genghis Khan in providing travel services for our staff members with traveling needs. The principal business of Genghis Khan is completely different from the business of our Group, and therefore does not compete with our business.

X-Golf

Upon the completion of the Reorganisation, X-Golf is principally engaged in sales of virtual golfing machines and software and the operation of a virtual golfing amusement centre. X-Golf was incorporated on 1 June 2011. For the ten months up to 31 March 2012, the turnover of X-Golf was ¥4.7 million (equivalent to approximately HK$0.4 million), and its net loss was approximately ¥128 million (equivalent to approximately HK$12 million), according to the information provided by our Controlling Shareholders and determined with reference to JGAAP.

X-Golf operates a showroom for the sales of virtual golfing machines and software at premises leased from our Group. This showroom concurrently serves as a virtual golfing amusement centre. This leasing arrangement is conducted in the ordinary course of our business on normal commercial terms. Although the virtual golfing amusement centre operated by X-Golf is an entertainment and leisure option that may be in indirect competition with our pachinko halls, our Directors are of the view that the business of X-Golf differs from our business. Unlike our pachinko halls, which primarily focus on providing entertainment and gaming experience to the general public, X-Golf focuses on a specific group of customers who are golf enthusiasts within the city precinct of Tokyo. In addition, X-Golf currently operates one virtual golfing amusement centre in Tokyo, which is on a substantially smaller scale than our network of 355 pachinko halls across 46 prefectures in Japan as at 31 March 2012. Our Directors confirm that, upon the [●], our operations will focus on the operation of pachinko halls and is not expected to expand into other entertainment options that are similar to, or in competition with, the business of X-Golf.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Based on the differences in terms of targeted customer bases, clear geographical segregation and the scale of business of our Group and X-Golf, our Directors consider that it is highly unlikely that there is or will be any material direct or indirect competition between our Group and X-Golf. See "Connected Transactions" for further information on the business arrangements between X-Golf and our Group.

Given the differences between our business and the Retained Businesses, our Directors are of the view that the Retained Businesses and our business have completely divergent business models which require different management expertise, skills and resources. Hence, our Directors are of the view that it is in the best interest of our Company to focus our resources on the development and growth of our core business of pachinko hall operations in Japan. Our Directors further confirm that, other than the Retained Businesses and our business, our Controlling Shareholders do not engage in, or otherwise have interests in, businesses which compete, or are likely to compete, either directly or indirectly, with our Company that should be brought to the attention of our Shareholders.

Independence from our Controlling Shareholders

Our Directors are satisfied that our Group can function, operate and carry on business independently of our Controlling Shareholders based of the following reasons:

Independence of management and directorship

The following table presents the details of the Directors and senior management of our Group and their positions in the Remaining DYH Group and other associates of our Controlling Shareholders:

	Position(s) held in our Group	Position(s) held in the Remaining DYH Group	Position(s) held in other associates of our Controlling Shareholders
Mr. Sato	Executive Director; chairman of our Board; and Chief Executive Officer, *the Company* Representative director and president, *Shinrainomori* Representative director, *Shinrainomori Association*	None [(1)]	Chairman, *One Asia*
Mr. Ushijima	Non-executive Director, *the Company*	None	Councillor, *One Asia*
Mr. Horiba	Independent non-executive Director, *the Company*	None	None
Mr. Takano	Independent non-executive Director, *the Company*	None	None
Mr. Yoshida	Independent non-executive Director, *the Company*	None	None
Mr. Kato	Independent non-executive Director, *the Company*	None	None
Mr. Yip	Independent non-executive Director, *the Company*	None	None

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

	Position(s) held in our Group	Position(s) held in the Remaining DYH Group	Position(s) held in other associates of our Controlling Shareholders
Mr. Uno	Executive Officer, *the Company*	None	None
Mr. Okayasu	Executive Officer, *the Company*	None	None
Mr. Yonehata	Executive Officer, *the Company*	None	None
Mr. Katsuta	Executive Officer, *the Company*	None	None
Mr. Kohei SATO	Representative director and president, *Dynam* Director, *Shinrainomori Association*	None	Councillor, *One Asia*
Mr. Kanetaka SATOH	Representative director and president, *Okuwa Japan*	None	None
Mr. Kenichi ASAI	Representative director and president, *Dynam Data*	None	None
Mr. Masaaki HORIGUCHI	Representative director and president, *Cabin Plaza*	None	None
Mr. Kuniyuki ISHIZUKA	Representative director and president, *Daikokuten*	None	None
Mr. Mitsuyuki SEKI	Representative director and president, *Dynam Land*	None	None
Mr. Shigeru FUKUMA	Representative director and president, *Dynam Advertisement*	None	None
Mr. Toshio SOGA	Representative director and president, *P Trading*	None	None
Mr. Taro OKA	Representative director and president, *Kanto Daido*	None	None
Mr. Mori	Member of the management strategy committee, *the Company* Director, *Dynam*	None	None
Mr. Hiroshi MIWA	Member of the management strategy committee, *the Company* Director, *Dynam*	None	None

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

	Position(s) held in our Group	Position(s) held in the Remaining DYH Group	Position(s) held in other associates of our Controlling Shareholders
Mr. Mamoru SAITO.	Member of the management strategy committee, *the Company* Director, *Dynam*	None	None
Mr. Makoto SAKAMOTO . .	Member of the management strategy committee, *the Company* Director, *Dynam*	None	None

(1) Following the incorporation of our Company, Mr. Sato resigned as the chief executive officer, president and representative director of DYH and began to concentrate on the management and operation of our Group. Hence, Mr. Sato will have no role in DYH except as its controlling shareholder.

Save as disclosed above, none of our Directors or members of our senior management holds any position or has any roles or responsibility in the Remaining DYH Group or with our Controlling Shareholders or any associates of our Controlling Shareholders.

Our Board of Directors is comprised of one executive Director, one non-executive Director, and five independent non-executive Directors. Our senior management consists of 17 members. Based on the following, our Directors believe that our Directors and members of our senior management are able to manage our business independently of the Remaining DYH Group and other companies controlled by our Controlling Shareholders:

(i) the majority of the members of our Board are independent of the Controlling Shareholders. In particular, each of Mr. Ushijima, Mr. Horiba, Mr. Takano and Mr. Yoshida have resigned from all positions they held within the Remaining DYH Group after the incorporation of our Company and will dedicate sufficient time and effort in supervising the operation and management of our business;

(ii) Mr. Sato, our executive Director, chairman of our Board, and Chief Executive Officer, has resigned as the chief executive officer and representative director and president of DYH. Although Mr. Sato is a controlling shareholder of DYH, he will have no on-going executive or non-executive duties in the Remaining DYH Group. As a result, Mr. Sato is able to devote full-time capacity to take care of our Company's interests. He will be primarily responsible for the overall management of our Group both in terms of day-to-day and strategic sense;

(iii) Mr. Uno, Mr. Okayasu, Mr. Yonehata and Mr. Katsuta, our Executive Officers, will have no on-going role in the Remaining DYH Group and will have dedicated responsibilities within our Group. In particular, Mr. Okayasu resigned from his positions in DYH following the incorporation of our Company on 20 September 2011;

(iv) One Asia is a general incorporated foundation (*ippan zaidan houjin* 一般財団法人) established under the GIA/GIF Law. Mr. Sato, Mr. Ushijima and Mr. Kohei SATO are prohibited from deriving any profit or dividends out of their respective roles in One Asia, which will not result in any conflict of interests;

(v) with five independent non-executive Directors out of a total Board size of seven, which exceeds the best practices outlined in [●], there will be a sufficiently robust and independent voice on the Board to counter-balance any situation of conflict of interest and protect the interests of our independent Shareholders;

(vi) all members of our senior management are full-time employees of our Group;

(vii) instances of actual or potential conflict have been identified (See "Connected Transactions"), and minimised (by virtue of the Deed of Non-Competition);

(viii) save for Mr. Sato and Mr. Kohei SATO, who have controlling interests in DYH, none of our Directors or members of our senior management will be interested in more than 1% in DYH or other associates of our Controlling Shareholders upon the [●]. Our Directors believe that such minimal shareholdings will not impair the independence of our Directors and members of our senior management;

(ix) each of our Directors is aware of his fiduciary duties as a Director of our Company, which require, among other things, that he act for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interests;

(x) connected transactions between our Company and the Remaining DYH Group and other companies controlled by our Controlling Shareholders are subject to the rules and regulations under the [●];

(xi) all of the businesses that are directly related to or incidental to the operation of pachinko halls in Japan held by our Controlling Shareholders have been consolidated into our Group as part of our Reorganisation. Therefore, there is limited competition that would adversely affect management independence; and

(xii) a number of corporate governance measures are in place to adequately deal with any potential conflicts of interest between our Company and our Controlling Shareholders, and to safeguard the interests of our independent Shareholders. See "— Corporate governance measures" in this section below.

Operational independence

Our Company makes business decisions independently. Our Company holds all relevant licenses necessary to carry out our business and has sufficient capital, equipment and employees to operate our business independently.

Based on the following, our Directors are of the view that our Company will continue to be operationally independent of the Remaining DYH Group and other companies controlled by our Controlling Shareholders on the basis that:

(i) our Company is not reliant on the trademarks owned by our Controlling Shareholders, the Remaining DYH Group and other companies controlled by our Controlling Shareholders;

(ii) our Company has our own administrative and corporate governance infrastructure (including our own accounting, legal and human resources departments);

(iii) all of the properties used as our principal place of business, office premises, and pachinko halls are owned, or leased from Independent Third Parties, by our Company or our operating subsidiaries;

(iv) our Company has established a set of internal control procedures to facilitate the effective operation of our business; and

(v) our Company does not rely on our Controlling Shareholders for access to suppliers and customers. In particular, we independently manage the sourcing of our pachinko and pachislot machines, as well as prize procurement. Our customers are predominantly pachinko and pachislot players, to whom we have independent access.

Continuing connected transactions between our Group and the Remaining DYH Group

During the Relevant Period, certain members of the Remaining DYH Group entered into related party transactions with our Group in the ordinary course of our business and on normal commercial terms. Details of these continuing connected transactions are set out in the section headed "Connected Transactions".

With the exception of the provision of limited services by the Remaining DYH Group, our business will, upon [●], continue to be independent of and separate from, our Controlling Shareholders. These limited services, which would constitute continuing connected transactions in respect of our Company, include:

(i) **leasing arrangements with Dynam Investment** — we operate our employees training centre and conference facility centre at certain premises leased from Dynam. We also lease certain premises for use by Dynam as a bicycle parking area available to the customers of a nearby pachinko hall. In the event that such premises are not available to us at a commercially viable rental payment or at all, our Directors are of the view that we would be able to find suitable alternative sites without undue delay or inconvenience;

(ii) **provision of cleaning services by Business Partners and Humap** — Business Partners and Humap perform cleaning services at our pachinko halls and office premises. In the event that such services are not available to us on commercially viable terms or at all, our Directors are of the view that we would be able to find a suitable alternative service provider without undue delay or inconvenience;

(iii) **purchase of general prizes from Humap** — we purchase pastry, coffee and tobacco products from Humap as general prizes awarded to customers. In the event that these products are not available to us on commercially viable terms or at all, our Directors are of the view that we would be able to find a suitable alternative supplier without undue delay or inconvenience; and

(iv) **provision of staff cafeteria services by Humap** — Humap operates the staff cafeteria at our headquarters. This staff cafeteria is separately managed by Humap, and we do not have any profit-sharing arrangements related thereto. Also, Humap provides staff working at our pachinko halls with a discount on the food at the restaurants operated by Humap next to our pachinko halls. Upon the [●], we expect to continue to engage Humap in operating our these cafeteria services. In the event that such services are not available to us on commercially viable terms or at all, our Directors are of the view that we would be able to find a suitable alternative service provider without undue delay or inconvenience.

See "Connected Transactions" for further details. These transactions between our Group and the Remaining DYH Group are not material in value as far as our Group is concerned. On an aggregated annual basis, the annual caps payable by our Group to the Remaining DYH Group, or vice versa, for the year ended 31 March 2012, did not exceed 4% of our Group's revenue during the same periods by reference to our financial results.

Discontinued connected transactions between our Group and the Remaining DYH Group

During the Relevant Period, the members of the Remaining DYH Group also provided the following services to us, all of which has been prior to the [●]:

(i) **purchase of LCD Monitors from Rich-O Korea** — we purchased a number of LCD monitors from Rich-O Korea, a member of the Remaining DYH Group. Since March 2011, all business relationship between our Group and Rich-O Korea ceased as a result of the change of business direction in Rich-O Korea. In the event that we are presented with new business needs that require additional LCD monitors, we expect to secure supplies from Independent Third Parties.

(ii) **human resources recruitment, employee training, and job placement services provided by Trusty Power** — during the Relevant Period, Trusty Power provided human resources recruitment, employee training and job placement services to members of our Group. Such services were carried out by the Relevant Trusty Power Secondees, which were secondees from Dynam. As part of our Reorganisation, the secondment arrangements between Dynam and Trusty Power in respect of the Relevant Trusty Power Secondees were terminated in November 2011 and all Relevant Trusty Power Secondees became the direct employees of Dynam. As a result, we ceased to rely on the Remaining DYH Group in performing our recruitment, training and job placement functionality.

(iii) **employee secondment** — during the Relevant Period, Dynam seconded a number of staff members to the DYH Group for training purposes. In November 2011, all secondment arrangements between our Group and the Remaining DYH Group ceased. We now rely on the Relevant Trusty Power Secondees to provide employee training services to our staff members.

(iv) **procurement of pachinko and pachislot game machines through P Leasing** — during the Relevant Period, we procured our pachinko and pachislot game machines through P Leasing, a member of the Remaining DYH Group. Such business functions were transferred to Dynam and P Trading following its incorporation on 1 July 2010. Hence, we ceased to rely on P Leasing and the Remaining DYH Group in procuring our game machines.

(v) **financing of pachinko and pachislot game machines** — during the Relevant Period, P Leasing provided our Group with financing in acquiring pachinko and pachislot game machines from Independent Third Party suppliers. For the years ended 31 March 2010 and 2011 and 2012, such financing amounted to nil, nil and ¥76 million (equivalent to approximately HK$7 million), respectively. Our Directors confirm that these arrangements were one-off transactions that were discontinued following the transfer of Kanto Daido from P Leasing to our Group as part of our Reorganisation.

(vi) **machine transport services** — during the Relevant Period, P Leasing handled the logistics and transport arrangements of our pachinko and pachislot game machines at our pachinko halls. Since 2010, such functionality was taken up our Distribution Centres, which are controlled by Dynam, our wholly-owned subsidiary. Hence, P Leasing ceased to provide machine transport services to our Group.

(vii) **corporate social responsibility research** — on 1 April 2011, Dynam entered into a service agreement with Business Partners, pursuant to which Business Partners would carry out research on the feasibility of recruiting employees with physical disabilities at our Group and conduct relevant marketing activities and training programs for disabled persons as part of our corporate social responsibility initiatives, in consideration for a monthly service charge of ¥2.5 million. This service agreement is valid for one year and our Group has no intention of renewing it. For the financial year ended 31 March 2012, an aggregate of ¥30 million (equivalent to approximately HK$3 million) has been paid to Business Partners. This related party transaction was discontinued before the [●] upon the completion of the final monthly payment on 31 March 2012.

Our Directors confirm that, except for the continuing connected transactions set out in the section headed "Connected Transactions", all related party transactions will be discontinued upon [●]. Our Directors (including our independent non-executive Directors) consider such continuing connected transactions have been entered into in the ordinary and usual course of our business and have been based on arm's length negotiation and on normal commercial terms that are in the interests of our Group and our Shareholders as a whole.

Financial independence

Our Directors are of the view that our Group will be financially independent of our Controlling Shareholders and any of their respective associates upon the [●] for the following reasons:

(i) **Strong financial position:** we are the second largest pachinko hall operator in Japan based on the total value of pachinko balls and pachislot tokens rented in 2010 and the largest in terms of number of halls, according to Yano Research. We have been financially sound throughout the Relevant Period. For the years ended 31 March 2010, 2011 and 2012, our Group's turnover was ¥165,461 million, ¥169,637 million and ¥165,078 million (equivalent to approximately HK$15,515 million), respectively, and our profits for the year for the same periods were ¥20,214 million, ¥16,191 million and ¥15,898 million (equivalent to approximately HK$1,497 million), respectively. As at 31 May 2012, our Group had cash and bank balances of approximately ¥19,869 million (equivalent to approximately HK$1,967 million) and available bank revolving facilities of ¥25,000 million (equivalent to approximately HK$2,475 million as calculated using the rate of ¥10.10 to HK$1.00, which was the exchange rate prevailing on 31 May 2012), of which ¥11,000 million (equivalent to approximately HK$1,089 million as calculated using the rate of ¥10.10 to HK$1.00, which was the exchange rate prevailing on 31 May 2012) was utilised and ¥14,000 million (equivalent to approximately HK$1,386 million as calculated using the rate of ¥10.10 to HK$1.00, which was the exchange rate prevailing on 31 May 2012) was available. The available amount of approximately ¥14,000 million (equivalent to approximately HK$1,386 million as calculated using the rate of ¥10.10 to HK$1.00, which was the exchange rate prevailing on 31 May 2012) can be entirely drawn on cash. Our Group's operating profit before working capital changes for the years ended 31 March 2011 and 2012 was approximately ¥42,510 million and ¥42,498 million (equivalent to approximately HK$3,994 million), respectively.

(ii) **Strong credit position**: besides having a strong financial position and cash generative operation as mentioned above, our Group also has a strong credit position on a stand-alone basis. Our Group expects to maintain a strong net cash position after the [●].

(iii) **A track record of fund raising on a stand-alone basis**: Our Group was able to, and believes that we are able to continue to, secure bank loans from banks and other financial institutions without any credit support or guarantees from our Controlling Shareholders and the Remaining DYH Group. Upon the completion of the Reorganisation, our Group had strong bank support on a stand-alone basis and this is supported by the fact that, as at 31 March 2012, our Group had unsecured bank borrowings of approximately ¥7,906 million (equivalent to approximately HK$743 million). With regards to the fundamentals of our Group, our Company is confident that after the [●], we will be able to obtain credit facilities from financial institutions on a stand-alone basis. As such, our Group is satisfied of our capability on carrying on our business financially independently of our Controlling Shareholders and the Remaining DYH Group.

During the Relevant Period, Dynam Data, our wholly-owned subsidiary, provided accounting and payroll administrative services to members of the Remaining DYH Group. In preparation for the [●], we have segregated our accounting infrastructure from the Remaining DYH Group. Our accounting system is now operated independently by Dynam Data, with software system and hardware facilities completely separated from the Remaining DYH Group. Dynam Data performs treasury functions independently of our Controlling Shareholders.

All the non-trade amounts due to and from our Controlling Shareholders, the Remaining DYH Group, and other companies controlled by our Controlling Shareholders, as well as all guarantees, indemnities and other securities provided by us for the benefit of our Controlling Shareholders, the Remaining DYH Group and other companies controlled by our Controlling Shareholders, or vice versa, will be fully settled or released before the [●]. As at the Latest Practicable Date, there was no financial assistance, security and/or guarantee provided by our Controlling Shareholders in favour of our Group, or vice versa.

DEED OF NON-COMPETITION

To eliminate and reduce the prospects of conflicts of interests between our Group and the Controlling Shareholders and their respective associates, the Controlling Shareholders and DYH have entered into the Deed of Non-Competition on [●] 2012 in favour of our Company, pursuant to which each of the Controlling Shareholders and DYH has unconditionally and irrevocably undertaken to our Company (for itself and on behalf of each other member of our Group) that he/she/it would not, and would procure that his/her/its associates (except any member of our Group) would not, during the term of the Deed of Non-Competition, directly or indirectly, either on his/her/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any business which is or may be in competition with the business carried on or contemplated to be carried on by any member of our Group from time to time (the "Restricted Business").

Each of our Controlling Shareholders and DYH has, unconditionally and irrevocably, further undertaken to our Company that in the event that it/he/she or its/his/her associate(s) is given/identifies any opportunities which directly or indirectly competes, or may lead to competition with

the Restricted Business, it/he/she will and will procure it/his/her associate(s) to, as soon as practicable inform our Company of such opportunity in writing and provide such information as is available to it/him/her in respect of such opportunity to our Company upon becoming aware of it.

Each of the Controlling Shareholders and DYH has also undertaken to our Company that he/she/it will do following:

a. provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors of its/his/her compliance with the Deed of Non-Competition and the enforcement of the Deed of Non-competition or a negative confirmation, as appropriate;

b. make an annual declaration on compliance with his/her/its undertakings under the Deed of Non-competition in the annual reports of our Company as the independent non-executive Directors think fit and to ensure the disclosure of details of their compliance with and the enforcement of the non-competition undertakings under the Deed of Non-Competition is consistent with the relevant requirements under the [●]; and

c. procure our Company to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of its/his/her non-competition undertakings under the Deed of Non-Competition.

The Deed of Non-Competition does not apply to:

a. any business or activity carried on by P Leasing as at the date of the Deed of Non-Competition;

b. any interests in the shares of any member of our Group since the business of such member is not in competition with our Group. Moreover, none of the Controlling Shareholders currently has any intention to hold shares directly in any member of our Group; or

c. interests in the shares of a company other than our Group which conducts or is engaged in any Restricted Business, provided that they are [●] and either:

    i. any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

    ii. the total number of the shares held by the relevant Controlling Shareholder or DYH and/or his/her/its associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Controlling Shareholder or DYH and his/her/its associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company or otherwise participate or be involved in the management of that company and at any time there should exist at least another shareholder of that company (together, where appropriate, with its associates) whose shareholdings in that company should be more than the total number of shares held by the Controlling Shareholder or DYH and his/her/its associates in aggregate.

The obligation of our Controlling Shareholders and DYH under the Deed of Non-Competition will cease to have any effect whatsoever on (a) the date on which the Shares cease to be [●]; (b) in respect of a Controlling Shareholder or DYH, the date on which that Controlling Shareholder or DYH and/or its/his/her associates, collectively and individually, ceases to hold an equity interest in our Company; or (c) in respect of a Controlling Shareholder or DYH, the date on which that Controlling Shareholder or DYH and/or its/his/her associates, jointly and severally, ceases to be entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at the Shareholders' meetings of our Company, whichever occurs first. In other words, if our Company were no longer [●] or the relevant Controlling Shareholder came to hold less than 30% of the Shares then in issue, the Deed of Non-Competition would not apply. We believe the 30% threshold is justifiable as it is equivalent to the thresholds applied under the [●] as they apply to the concept of "control".

CORPORATE GOVERNANCE MEASURES

Following the [●], our Company will continue to enter into connected transactions with the Remaining DYH Group. Our Company will further adopt the following measures to manage the conflicts of interests arising from the possible competing business of our Controlling Shareholders and to safeguard the interests of our independent Shareholders:

(i) in preparation for the [●], our Company has amended our Articles of Incorporation to comply with the [●]. In particular, our Articles of Incorporation provide that, except for certain exceptions permitted under the [●] or the [●], a Director shall not vote on any Board resolution approving any contract if he has a material interest, nor shall such Director be counted in the quorum present at the meeting. Furthermore, a Director who holds directorship and/or senior management positions in the Controlling Shareholders or any of its associates (other than our Company or any member of our Group) shall not vote on any Board resolution regarding any transactions proposed to be entered into between any member of our Group and our Controlling Shareholders or any of its associates (other than our Company or any member of our Group), nor shall such Director be counted in the quorum present at such meeting;

(ii) [●];

(iii) our independent non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders and DYH;

(iv) each of our Controlling Shareholders and DYH have undertaken to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;

(v) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition either through [●], or by way of [●];

(vi) each of our Controlling Shareholders and DYH will make an annual declaration of compliance with the Deed of Non-Competition in the annual report of our Company;

(vii) the management structure of our Group includes an audit committee, a remuneration committee, and a nomination committee, each of which is required by its terms of reference to be alert to potential conflicts of interest and to formulate their proposals accordingly; and

(viii) pursuant to the Corporate Governance Code, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's cost.

CONNECTED TRANSACTIONS

OVERVIEW

Following the completion of the [●], we will continue to be party to certain transactions that constitute continuing connected transactions of our Company. Set out below is a summary of these transactions.

Property lease agreements

Food and beverage retail outlet leases

Background

As at 31 March 2012, Dynam, a wholly-owned subsidiary of the Company, let as lessor 325 separate premises (the "Humap Premises"), being premises located next to 325 of 355 pachinko halls operated by Dynam as at 31 March 2012, to Humap, a wholly-owned subsidiary of DYH, as lessee, for use as restaurants next to the pachinko halls (the "Humap Restaurants"). The total gross floor area is approximately 12,546.09 sq.m. It is anticipated that the total rentals payable by Humap to Dynam for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥180.5 million (equivalent to approximately HK$17.0 million), ¥193.9 million (equivalent to approximately HK$18.2 million) and ¥207.2 million (equivalent to approximately HK$19.5 million), respectively. It is anticipated that the total amount of utilities payable by Humap to Dynam for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥147.7 million (equivalent to approximately HK$13.9 million), ¥158.8 million (equivalent to approximately HK$14.9 million) and ¥169.7 million (equivalent to approximately HK$15.9 million), respectively. The rentals were determined by the parties through arm's length negotiations with reference to the market rates for similar premises in the vicinity of each pachinko hall.

Relationship

Humap, being a wholly-owned subsidiary of DYH, is indirectly owned by Mr. Sato, our Chief Executive Officer, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

Humap first leased premises from Dynam in 1982. The aggregate amounts of rent paid by Humap to our Group for each of the financial years ended 31 March 2010, 2011 and 2012 were approximately ¥151.4 million, ¥160.5 million and ¥165.4 million (equivalent to approximately HK$15.5 million), respectively. The aggregate amounts of utilities paid by Humap to our Group for each of the three years ended 31 March 2010, 2011 and 2012 were approximately ¥129.2 million, ¥138.2 million and ¥141.5 million (equivalent to approximately HK$13.3 million), respectively.

Future services

In anticipation of the [●], our Company entered into a new master lease agreement with DYH on 19 June 2012 (the "Master Lease Agreement"), pursuant to which DYH has agreed to procure Humap to lease from Dynam the Humap Premises. The term of the leases granted under the Master Lease Agreement are valid from 19 June 2012 to 31 March 2015. The rent and utilities payable under the Master Lease Agreement are capped.

The Master Lease Agreement is renewable at the option of our Group. Should there be any renewal of the term of the Master Lease Agreement, our Company will ensure compliance with all relevant requirements under [●].

Indoor golf simulator business premises lease

Background

On 9 August 2011, Dynam Land, a wholly-owned subsidiary of our Group, entered into a lease agreement (the "First Lease Agreement") to let as lessor a total gross floor area of approximately 50 sq.m at the Dynam Kanamachi Minamiguchi Building to X-Golf, a wholly-owned subsidiary of DYH, for X-Golf to prepare its impending indoor golf simulation business.

On 13 October 2011, Dynam Land and X-Golf terminated the First Lease Agreement and on 14 October 2011, entered into a new lease agreement (the "Second Lease Agreement"), whereby the lettable gross floor area was increased to approximately 487 sq.m. at the Dynam Kanamachi Minamiguchi Building. It is anticipated that the total fees (including rental charges, property management fee and utilities) payable by X-Golf to Dynam Land under the Second Lease Agreement for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥24.6 million (equivalent to approximately HK$2.3 million), ¥24.6 million (equivalent to approximately HK$2.3 million) and ¥24.6 million (equivalent to approximately HK$2.3 million), respectively. These fees were determined by the parties through arm's length negotiations with reference to the market rates for similar premises in the vicinity.

Relationship

X-Golf, being a wholly-owned subsidiary of DYH, is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

Dynam Land initially let a total gross floor area of approximately 50 sq.m. to X-Golf during the period from 9 August 2011 to 13 October 2011, at a monthly fee (including rental charges, property management fee and utilities) of ¥210,000. Starting from 14 October 2011, Dynam Land increased the lettable gross floor area let to X-Golf to approximately 487 sq.m. The Second Lease Agreement provides that, until X-Golf officially commenced its golf simulation business at the lettable premises, the monthly fee (including rental charges, property management fee and utilities) payable by X-Golf would be ¥204,920. On 17 January 2012, X-Golf officially commenced its business on the lettable premises and started to pay a monthly fee (including rental charges, property management fee and utilities) of ¥2,049,200 (equivalent to approximately HK$192,594) in accordance with the Second Lease Agreement.

From 9 August 2011 to 31 March 2012, the aggregate amount of fees paid by X-Golf to our Group under the First Lease Agreement and Second Lease Agreement was approximately ¥6.1 million (equivalent to approximately HK$0.6 million).

Future services

The Master Lease Agreement also applies to the premises that are the subject of the Second Lease Agreement, pursuant to which DYH agreed to procure X-Golf to lease such premises from Dynam Land. The term of the leases granted under the Master Lease Agreement are valid from 19 June 2012 to 31 March 2015. The fees (including rental charges, property management fee and utilities) payable under the Master Lease Agreement are capped.

The Master Lease Agreement is renewable at the option of our Group.

In arriving at the above estimated annual fee caps (including rental charges, property management fee and utilities) our Directors have taken into account the market rental of the properties in the same area of Tokyo and of similar grade to the premises leased to X-Golf. Our Directors and the property valuer, [●], after reviewing the Master Lease Agreement, have confirmed that (i) its terms and conditions are fair and reasonable to the parties thereto; and (ii) the amounts payable thereunder reflect market rates.

Hot stone sauna business premises lease

Background

As at 31 March 2012, Dynam let premises as lessor (the "DCL Premises") to Dynam Investment, a wholly-owned subsidiary of DYH, as lessee, for use by Dynam Investment in carrying on a hot stone sauna leisure business. The business carried on by Dynam Investment is unrelated to the business carried on by our Group. The total gross floor area is approximately 312 sq.m., consisting of a single property operated within one of the pachinko halls operated by Dynam. It is anticipated that the total rentals payable by Dynam Investment to Dynam for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥8.0 million (equivalent to approximately HK$0.75 million), ¥8.0 million (equivalent to approximately HK$0.75 million) and ¥8.0 million (equivalent to approximately HK$0.75 million), respectively. The rentals were determined by the parties through arm's length negotiations with reference to the market rates for similar premises in the vicinity.

Relationship

Dynam Investment, being a wholly-owned subsidiary of DYH, is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

Dynam first let the DCL Premises to Dynam Investment in 2006. The aggregate amounts of rent paid by Dynam Investment to our Group for each of the financial years ended 31 March 2010, 2011 and 2012 were approximately ¥7.7 million, ¥7.7 million and ¥7.7 million (equivalent to approximately HK$0.7 million), respectively.

Future services

The Master Lease Agreement also applies to the DCL Premises, pursuant to which our Company has agreed to procure Dynam to lease the DCL Premises to Dynam Investment. The term of the leases granted under the Master Lease Agreement are valid from 19 June 2012 to 31 March 2015. The rent payable under the Master Lease Agreement is capped.

The Master Lease Agreement is renewable at the option of our Group.

Training centre

Background

As at 31 March 2012, Dynam as lessee leased premises (the "Training Centre") from Dynam Investment as lessor for use by Dynam as a training centre and conference facility centre. The business carried on by Dynam Investment is unrelated to the business carried on by

our Group. The total gross floor area is approximately 11,634 sq.m. It is anticipated that the total rent payable by Dynam to Dynam Investment for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥44.9 million (equivalent to approximately HK$4.2 million), ¥44.9 million (equivalent to approximately HK$4.2 million) and ¥44.9 million (equivalent to approximately HK$4.2 million), respectively. The rentals were determined by the parties through arm's length negotiations with reference to the market rates for similar premises in the vicinity.

Relationship

Dynam Investment, being a wholly-owned subsidiary of DYH, is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

Dynam Investment first let the Training Centre to Dynam in 2004. The aggregate amounts of rent paid to Dynam Investment by our Group for each of the financial years ended 31 March 2010, 2011 and 2012 were approximately ¥44.9 million, ¥44.9 million and ¥44.9 million (equivalent to approximately HK$4.2 million), respectively.

Future services

The Master Lease Agreement also applies to the Training Centre, pursuant to which our Company has agreed to procure Dynam to lease the Training Centre from Dynam Investment. The term of the leases granted under the Master Lease Agreement are valid from 19 June 2012 to 31 March 2015. The rent payable under the Master Lease Agreement is capped.

The Master Lease Agreement is renewable at the option of our Group.

Bicycle parking area

Background

As at 31 March 2012, Dynam as lessee leased premises (the "Bicycle Parking Area") from Dynam Investment as lessor for use by Dynam as a bicycle parking area available to the customers of a nearby pachinko hall in Tokyo. The business carried on by Dynam Investment is unrelated to the business carried on by our Group. The total gross floor area is approximately 348.41 sq.m. It is anticipated that the total rentals payable by Dynam to Dynam Investment for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥9 million (equivalent to approximately HK$0.85 million), ¥9 million (equivalent to approximately HK$0.85 million) and ¥9 million (equivalent to approximately HK$0.85 million), respectively. The rentals were determined by the parties through arm's length negotiations with reference to the market rates for similar premises in the vicinity.

Relationship

Dynam Investment, being a wholly-owned subsidiary of DYH, is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

Dynam Investment first let the Bicycle Parking Area to Dynam in 2003. The aggregate amounts of rent paid to Dynam Investment by our Group for each of the financial years ended 31 March 2010, 2011 and 2012 were approximately ¥10.4 million, ¥9 million and ¥9 million (equivalent to approximately HK$0.85 million), respectively.

Future services

The Master Lease Agreement also applies to the Bicycle Parking Area, pursuant to which our Company has agreed to procure Dynam to lease the Bicycle Parking Area from Dynam Investment. The term of the leases granted under the Master Lease Agreement are valid from 19 June 2012 to 31 March 2015. The rent payable under the Master Lease Agreement is capped.

The Master Lease Agreement is renewable at the option of our Group.

Cleaning and ancillary service agreements

Hall Cleaning and Ancillary Services

Background

During the Relevant Period, Dynam procured pachinko hall cleaning and ancillary services (which includes general repair and maintenance services of pachinko halls) (the "Hall Cleaning and Ancillary Services") from Humap. It is anticipated that the total fees payable to Humap for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥4,500 million (equivalent to approximately HK$422.9 million), ¥5,000 million (equivalent to approximately HK$469.9 million) and ¥5,500 million (equivalent to approximately HK$516.9 million), respectively. The fees for the Hall Cleaning and Ancillary Services were determined by the parties through arm's length negotiations with reference to market rates.

Save for nine pachinko halls where cleaning and ancillary services were performed by external third party service providers and/or employees of our Group, Humap performed Hall Cleaning and Ancillary Services in all pachinko halls operated by our Group during the Relevant Period.

Relationship

Humap, being a wholly-owned subsidiary of DYH, is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

The historical amounts charged to Dynam for each of the financial years ended 31 March 2010, 2011 and 2012 were approximately ¥4,595 million, ¥4,207 million and ¥4,254 million (equivalent to approximately HK$400 million), respectively, and such fees were calculated on the basis of market rates during such periods. The amount paid by Dynam for the Hall Cleaning and Ancillary Services for the year ended 31 March 2011 was less than the amount paid for the year ended 31 March 2010 due to a review of hall cleaning expenses and a resulting reduction of the scope and frequency of such services.

CONNECTED TRANSACTIONS

Office Cleaning and Ancillary Services

Background

For the financial year ended 31 March 2010, our Group procured office premises cleaning and ancillary services (which includes general repair and maintenance of office premises) (the "Office Cleaning and Ancillary Services") from Humap and external third party service providers, and continued to do so through February 2011. In March 2011, our Group ceased to procure the Office Cleaning and Ancillary Services from Humap and began to procure such services from Business Partners. For the financial year ended 31 March 2012, our Group procured Office Cleaning and Ancillary Services from Business Partners and external third party service providers. It is anticipated that, upon the [●], the Office Cleaning and Ancillary Services will be exclusively performed by Business Partners and the estimated total fees payable to Business Partners for the Office Cleaning and Ancillary Services for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥18.0 million (equivalent to approximately HK$1.7 million), ¥20.0 million (equivalent to approximately HK$1.9 million), and ¥23.0 million (equivalent to approximately HK$2.2 million), respectively. The amounts payable for the Office Cleaning and Ancillary Services were determined by the parties through arm's length negotiations with reference to market rates.

Relationship

Business Partners, being a wholly-owned subsidiary of DYH, is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company [●].

Historical transaction amounts

For the financial year ended 31 March 2010, our Group procured Office Cleaning and Ancillary Services from Humap and external third party service providers. The historical amount charged by Humap during the same period was approximately ¥0.7 million, and such fee was calculated on the basis of market rates. The historical amount charged by external third party service providers during the same period totaled approximately ¥21.3 million in the aggregate.

From April 2010 to February 2011, our Group continued to procure Office Cleaning and Ancillary Services from Humap and external third party service providers. In March 2011, our Group ceased to procure the Office Cleaning and Ancillary Services from Humap and began to procure such services from Business Partners. The historical amount charged by Humap for the financial year ended 31 March 2011 was approximately ¥0.9 million and the historical amount charged by Business Partners during the same period was approximately ¥0.1 million. The historical amount charged by external third party service providers during the same period totaled approximately ¥19.4 million in the aggregate.

For the financial year ended 31 March 2012, our Group procured Office Cleaning and Ancillary Services only from Business Partners and external third party service providers. The historical amount charged by Business Partners during this period was approximately ¥9.3 million (equivalent to approximately HK$0.9 million). The historical amount charged by external third party service providers during the same period totaled approximately ¥15.0 million (equivalent to approximately HK$1.4 million) in the aggregate.

The following table sets out Office Cleaning and Ancillary Service providers by period:

	Financial year ended 31 March 2010	April 2010 to February 2011	March 2011	April 2011 to March 2012	Upon [●]
Humap	✓	✓			
Third party service providers	✓	✓	✓	✓	
Business Partners			✓	✓	✓

It is anticipated that upon [●], the Office Cleaning and Ancillary Services will be exclusively conducted by Business Partners.

Future services

In anticipation of the [●], our Company entered into an office cleaning and ancillary services agreement with DYH (for and on behalf of Business Partners) on 19 June 2012 (the "Office Cleaning and Ancillary Services Agreement"), which will expire on 31 March 2015. Under the Office Cleaning and Ancillary Services Agreement, our Company will continue to procure members of our Group to procure the Office Cleaning and Ancillary Services from Business Partners.

Food and beverage supply and services agreements

General prizes procurement

Background

During the Relevant Period, Dynam purchased pastry, coffee and tobacco products to be offered as general prizes at the pachinko halls operated by our Group (the "General Prizes"). It is anticipated that the total amounts payable to Humap for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥610 million (equivalent to approximately HK$57.3 million), ¥660 million (equivalent to approximately HK$62.0 million) and ¥710 million (equivalent to approximately HK$66.7 million), respectively, taking into account new halls that our Group may open before 31 March 2015. The amounts payable for the General Prizes were determined by the parties through arm's length negotiations with reference to market rates.

Relationship

Humap, being a wholly-owned subsidiary of DYH, is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

The historical amounts charged to Dynam by Humap for the General Prizes for each of the financial years ended 31 March 2010, 2011 and 2012 were approximately ¥788 million, ¥602 million and ¥518 million (equivalent to approximately HK$48.7 million), respectively, and such fees were calculated on the basis of market rates over such periods after arm's length negotiations. The amounts charged to Dynam by Humap were more favourable to Dynam as compared to amounts chargeable to third party customers by Humap for similar products. The decreasing trend in the amount paid by Dynam to Humap for the General Prizes was due to the gradual decrease of pastry, coffee and tobacco products being offered as general prizes to our customers during the Relevant Period.

Future services

In anticipation of the [●], our Company entered into a general prizes agreement with DYH (for and on behalf of Humap) on 19 June 2012 (the "General Prizes Supply Agreement"), which will expire on 31 March 2015. Under the General Prizes Supply Agreement, our Company will continue to procure Dynam to procure the General Prizes from Humap.

Vending Machine Licence

Background

During the Relevant Period, Dynam and Humap were parties to a coffee vending machines royalty arrangement pursuant to which Dynam allowed Humap to install coffee vending machines at the pachinko halls operated by our Group (the "Vending Machine Licence") in exchange for a fixed fee of ¥10,000 per machine and an additional royalty of 20% of the sales generated from the vending machines. Provided as a means of start-up allowance, the fixed fee of ¥10,000 per machine was not chargeable for the financial year ended 31 March 2010. It is anticipated that the total amounts payable to our Group for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥26 million (equivalent to approximately HK$2.4 million), ¥35 million (equivalent to approximately HK$3.3 million) and ¥43 million (equivalent to approximately HK$4.0 million), respectively. The amounts chargeable for the Vending Machine Licence were determined by the parties through arm's length negotiations with reference to market rates.

Relationship

Humap is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

The historical amounts paid to Dynam by Humap by way of royalties from the sale of coffee from vending machines under the Vending Machine Licence for each of the financial years ended 31 March 2010, 2011 and 2012 were approximately ¥1.1 million, ¥10.3 million and ¥25.7 million (equivalent to approximately HK$2.4 million), respectively, and such fees were determined after arm's length negotiations. Provided as a means of start-up allowance, the fixed fee of ¥10,000 per machine was not chargeable for the financial year ended 31 March 2010. The amounts payable to Dynam by Humap were more favourable to Dynam as compared to amounts payable by third party service providers for similar services.

The increase in historical amounts paid to Humap by Dynam under the Vending Machine License was due to (i) increase in the number of vending machines installed at our pachinko halls; and (ii) growth in the revenue generated through such vending machines.

Future services

In anticipation of the [●], our Company entered into a vending machine licence agreement with DYH (for and on behalf of Humap) on 19 June 2012 (the "Vending Machine Licence Agreement"), which will expire on 31 March 2015. Under the Vending Machine Licence Agreement, our Company will continue to procure Dynam to procure the Vending Machine Licence from Humap.

CONNECTED TRANSACTIONS

Coffee Wagon Licence

Background

During the Relevant Period, Dynam and Humap were parties to a coffee wagon services arrangement whereby Dynam allowed Humap to sell coffee from coffee wagons and service carts at the pachinko halls operated by our Group (the "Coffee Wagon Licence"). Under the Coffee Wagon Licence, Dynam is entitled to a royalty of 15% of the revenue generated from the coffee wagon services, except for sales attributable to purchases by Dynam's employees. By way of employee benefit, it has been the practice of Dynam to offer a discount of ¥50 or ¥100 per cup, depending on the retail price, to its employees and to write off that amount from the royalty payments due to it from Humap.

It is anticipated that the total amounts of the royalties payable by Humap to our Group for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥27 million (equivalent to approximately HK$2.5 million), ¥29 million (equivalent to approximately HK$2.7 million), and ¥32 million (equivalent to approximately HK$3.0 million), respectively. The amounts chargeable for the Coffee Wagon Licence were determined by the parties through arm's length negotiations with reference to market rates.

Relationship

Humap is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

The historical amounts paid to Dynam by Humap by way of royalties from the sales of coffee from wagons under the Coffee Wagon Licence for each of the financial years ended 31 March 2010, 2011 and 2012 were approximately ¥29.2 million, ¥27.6 million and ¥26.6 million (equivalent to approximately HK$2.5 million), respectively, and such fees were determined with reference to market rates after arm's length negotiations.

Future services

In anticipation of the [●], our Company entered into a coffee wagon licence agreement with DYH (for and on behalf of Humap) on 19 June 2012 (the "Coffee Wagon Licence Agreement"), which will expire on 31 March 2015. Under the Coffee Wagon Licence Agreement, our Company will continue to procure Dynam to grant the Coffee Wagon Licence to Humap.

Staff cafeteria service

Background

During the Relevant Period, Dynam entered into arrangements with Humap whereby Humap agreed to (i) operate a cafeteria for the benefit of our employees from premises at our headquarters licensed to Humap (the "Staff Cafeteria Services"); and (ii) provide staff working at our pachinko halls with a discount on the retail price of food at the Humap Restaurants (the "Discount Services") (collectively, the "Cafeteria Services"). It is anticipated that the total amounts payable to Humap for each of the financial years ending 31 March 2013, 2014 and 2015 will be ¥60.0 million (equivalent to approximately HK$5.6 million), ¥65.0 million (equivalent to approximately HK$6.1 million) and ¥80.0 million (equivalent to approximately HK$7.5 million), respectively. The amounts payable for the Cafeteria Services are fixed prices which differ depending on the type of food and were determined after arm's length negotiations.

CONNECTED TRANSACTIONS

Relationship

Humap is indirectly owned by Mr. Sato, Rich-O and the Sato Family Members, collectively as to approximately 83.5%, and is therefore a connected person of our Company.

Historical transaction amounts

The historical amounts paid by Dynam to Humap for the Cafeteria Services for each of the financial years ended 31 March 2010, 2011 and 2012 were approximately ¥89.6 million, ¥51.0 million and ¥53.8 million (equivalent to approximately HK$5.1 million), respectively, and such fees were calculated on the basis of market rates during such periods. The historical amount for the financial year ended 31 March 2010 was significantly higher than the amounts for other periods during the Relevant Period due to non-recurring fees for a series of staff events that took place in the financial year ended 31 March 2010.

Future services

In anticipation of the [●], our Company entered into an agreement with respect to the Staff Cafeteria Services (the "Staff Cafeteria Agreement") and an agreement with respect to the Discount Services (the "Staff Discount Agreement") with DYH (for and on behalf of Humap) on 19 June 2012 (collectively, the "Staff Cafeteria and Discount Agreements"), both of which will expire on 31 March 2015. Under the Staff Cafeteria and Discount Agreements, our Company will continue to procure Dynam to procure the Cafeteria Services from Humap.

DIRECTORS AND SENIOR MANAGEMENT

Our Company was incorporated in Japan as a stock company (*kabushiki-gaisha* 株式会社) under the Companies Act with an audit committee, a nomination committee, and a remuneration committee. Pursuant to the Companies Act, companies with this corporate structure form a specific category of stock company (*kabushiki-gaisha* 株式会社) and are required to appoint a board of directors and a minimum of one executive officer (*shikkoyaku* 執行役).

BOARD OF DIRECTORS

Our Board of Directors is the primary decision-making body of our Company, setting fundamental business strategies and policies for the management and operation of our business and monitoring their implementation.

Our Board currently consists of seven Directors, comprising one executive Director, one non-executive Director and five independent non-executive Directors. Pursuant to our Articles of Incorporation, our Directors are elected by our Shareholders at the annual Shareholders' meetings. The term of office of a Director shall expire at the end of the next annual Shareholders' meeting to be held after his appointment. Directors may serve any number of consecutive terms.

The following table lists the current members of our Board:

Name	Age	Position/Title in our Group	Date of appointment
Mr. Yoji SATO (佐藤洋治)	66	Executive Director; chairman of the Board; Chief Executive Officer; and member of nomination and remuneration committees *the Company* Representative director and president *Shinrainomori* Representative director *Shinrainomori Association*	20 September 2011[(1)]
Mr. Noriaki USHIJIMA (牛島憲明)	62	Non-executive Director *the Company*	20 September 2011[(1)]
Mr. Katsuhide HORIBA (堀場勝英)	68	Independent non-executive Director[(2)]; and chairman of nomination and remuneration committees *the Company*	20 September 2011[(1)]
Mr. Ichiro TAKANO (高野一郎)	56	Independent non-executive Director[(2)]; and chairman of audit committee *the Company*	20 September 2011[(1)]
Mr. Yukio YOSHIDA (吉田行雄)	66	Independent non-executive Director[(2)]; and member of audit committee *the Company*	20 September 2011[(1)]
Mr. Mitsutoshi KATO (加藤光利)	54	Independent non-executive Director; and member of remuneration and nomination committees *the Company*	29 February 2012

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position/Title in our Group	Date of appointment
Mr. Thomas Chun Kee YIP (葉振基)	51	Independent non-executive Director; and member of audit committee *the Company*	29 February 2012

(1) Mr. Sato, Mr. Ushijima, Mr. Horiba, Mr. Takano and Mr. Yoshida were appointed on the date of the incorporation of our Company.

(2) Mr. Ushijima, Mr. Horiba, Mr. Takano and Mr. Yoshida were appointed as outside Directors (*shagai torishimariyaku* 社外取締役) on the date of the incorporation of our Company. "Outside director" has a different meaning under the Companies Act when compared to the meaning of "independent non-executive Director" under the [●].

Below are the biographies of our current Directors:

Executive Director

Mr. Yoji SATO (佐藤洋治) age 66

Executive Director, chairman of the Board and Chief Executive Officer

Mr. Sato was appointed as our executive Director with effect from 20 September 2011, the date of incorporation of our Company. He is also the chairman of our Board, our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役), and a member of our remuneration and nomination committees. Mr. Sato was re-appointed to the same positions on 20 June 2012. Mr. Sato is primarily responsible for our Group's overall strategic planning and the management of our Group's business operations. He is also a representative director (*daihyo torishimariyaku* 代表取締役) and president of Shinrainomori and a representative director of Shinrainomori Association.

Raised in Japan, Mr. Sato joined our Group in January 1970 and since then, he has been instrumental in our business expansion and has developed our Group from a small-scale operation with two pachinko halls in Tokyo to the largest pachinko hall operator in terms of number of halls according to Yano Research with a chain store operation of 355 pachinko halls in 46 prefectures across Japan as at 31 March 2012. Mr. Sato's career milestones prior to the establishment of our Group are set out in the following table:

Date	Career milestones
March 1968	• Mr. Sato graduated from Waseda University with a bachelor's degree in commerce
April 1968	• Mr. Sato began his career in Daiei Inc., a large-scale supermarket-chain in Japan the shares of which are listed on the Tokyo Stock Exchange (TSE: 8263)
January 1970	• Mr. Sato received interests from Mr. Yohei SATO, his father, in Sawa Shoji Co., Ltd., the predecessor of Dynam and the holding company of our pachinko hall operations at that time
September 1978	• Mr. Sato was appointed as the president and representative director (*daihyo torishimariyaku* 代表取締役) of Dynam
April 2003	• Mr. Sato was appointed as the president and representative director (*daihyo torishimariyaku* 代表取締役) of Dynam Investment

Date	Career milestones
December 2006	• Mr. Sato assumed the positions of president and representative director (*daihyo torishimariyaku* 代表取締役) in DYH following the 2006 Restructuring, as a result of which DYH became the holding company of our pachinko hall operations
March 2007	• Mr. Sato was re-designated as the director, chairman of the board and chief executive officer (*daihyo shikkoyaku* 代表執行役) of DYH as DYH underwent a series of restructuring in its corporate governance regime
December 2008	• Mr. Sato was appointed as the president and representative director (*daihyo torisimariyaku* 代表取締役) of Shinrainomori
September 2011	• Following the incorporation of our Company, Mr. Sato resigned from all of his positions in DYH. He was subsequently appointed as our executive Director, chairman of our Board and Chief Executive Officer (*daihyo shikkoyaku* 代表執行役)

Mr. Sato has spent over four decades with our Group, during which he obtained extensive experience in the management and operation of pachinko halls, corporate governance, strategic planning, and financial management. We believe that the success of our Group and his personal attributes earned him wide recognition as a leading figure and pioneer in the pachinko industry in Japan. Mr. Sato is an advisor of the Pachinko Chain Stores Association* (パチンコ・チェーンストア協会). The Pachinko Chain Stores Association is a leading industry organisation in the pachinko industry of Japan that promotes pachinko as a means of entertainment and leisure among the general public in Japan.

Mr. Sato was a director, the chairman of the board and chief executive officer (*daihyo shikkoyaku* 代表執行役) of DYH from March 2007 until he resigned from these positions following the incorporation of our Company. Upon the completion of the [●], save for being a controlling DYH Shareholder, Mr. Sato will have no on-going executive or non-executive roles in DYH.

Mr. Sato is one of our Controlling Shareholders. Together with Rich-O and the Sato Family Members, Mr. Sato will be interested in approximately 68.2% of our entire issued share capital immediately following the completion of the [●] (without taking into account the Shares that may be issued and allotted pursuant to the exercise of the [●]). Save as disclosed herein, Mr. Sato has not been (i) a director of any public company the securities of which are listed on the securities markets in Hong Kong or overseas in the three years immediately preceding the date of this document; (ii) a full time government official of any country; or (iii) a full time employee of a government-owned or operated entity.

Non-executive Director

Mr. Noriaki USHIJIMA (牛島憲明) age 62
Non-executive Director

Mr. Ushijima was appointed as our outside Director *(shagai torishimariyaku* 社外取締役) with effect from 20 September 2011, the date of incorporation of our Company. Mr. Ushijima was re-appointed to the same position on 20 June 2012.

Mr. Ushijima has over 30 years' experience serving at the Tokyo Stock Exchange. He held several senior positions at the Tokyo Stock Exchange between April 1973 and June 2004, and has substantial knowledge in the regulatory regime of securities products. Between June 2002

and May 2004, Mr. Ushijima assumed the positions of general manager in the listing inspection department and derivatives department of the Tokyo Stock Exchange. In June 2004, he assumed the positions of director and executive officer at Jasdaq Securities Exchange, Inc. As a member of the senior management of Jasdaq Securities Exchange, Inc., Mr. Ushijima has substantial experience in compliance and securities matters in Japan. Mr. Ushijima left Jasdaq Securities Exchange, Inc. in November 2006 and founded the Noriaki Ushijima Office in December 2006, providing business consulting services from its office in Chuo district (中央区), Tokyo.

Since March 2008, Mr. Ushijima had been an outside director *(shagai torishimariyaku* 社外取締役) and a member of the audit committee of DYH. He has resigned from these positions following the incorporation of our Company. Mr. Ushijima graduated from Chuo University in March 1973 with a bachelor's degree in economics. Immediately following the completion of the [●], Mr. Ushijima will be interested in 838,000 Shares of our Company. Save as disclosed herein, Mr. Ushijima has not been a director of any public company the securities of which are listed on the securities markets in Hong Kong or overseas in the three years immediately preceding the date of this document.

Independent non-executive Directors

Our independent non-executive Directors were appointed as outside Directors (*shagai torishimariyaku* 社外取締役). "Outside director" has a different meaning under the Companies Act when compared with the meaning of "independent non-executive director" under the [●].

Our Directors have considered all of the factors under [●] and are satisfied with the independence of our independent non-executive Directors.

Mr. Katsuhide HORIBA (堀場勝英) age 68
Independent non-executive Director

Mr. Horiba was appointed as our outside Director (*shagai torishimariyaku* 社外取締役) with effect from 20 September 2011, the date of incorporation of our Company. He is also the chairman of our nomination and remuneration committees. Mr. Horiba was re-appointed to the same positions on 20 June 2012.

Mr. Horiba began his career in April 1968 at Daiei Inc., a large-scale supermarket-chain in Japan the shares of which are listed on the Tokyo Stock Exchange (TSE: 8263), where he once held the position of director and divisional manager of its accounting department. Subsequently, Mr. Horiba joined Daiei OMC, Inc. (currently known as Cedyna Financial Corp), a provider of consumer credit card services the shares of which used to be listed on the Tokyo Stock Exchange (TSE: 8258), where he served as a senior managing director. Subsequently, Mr. Horiba also worked as a chief financial officer at Aiful Corporation, a large-scale consumer finance company the shares of which are listed on the Tokyo Stock Exchange (TSE: 8515). With his previous positions in a number of public companies in Japan, Mr. Horiba is experienced in general corporate management.

Since October 2006, Mr. Horiba has been an outside director of DYH (*shagai torishimariyaku* 社外取締役). In March 2007, he was also appointed as the chairman of the nomination committee and a member of the remuneration committee of DYH. Following the incorporation of our Company, Mr. Horiba resigned from all positions he held within DYH.

Mr. Horiba graduated from Keio University in March 1968 with a bachelor's degree in commerce. Immediately following the completion of [●], Mr. Horiba will be interested in 100,000 Shares of our Company, representing less than 1% of the our entire issued share capital in

compliance with [●]. Save as disclosed herein, Mr. Horiba has not been a director of any public company the securities of which are listed on a securities exchange in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Horiba was an outside director (*shagai torishimariyaku* 社外取締役) of DYH between 1 October 2006 and 20 September 2011. Our Directors are of the view that this position does not affect Mr. Horiba's independence under [●] because (i) as confirmed by our Japan Legal Adviser, Mr. Horiba, as an outside director (*shagai torishimariyaku* 社外取締役), was not allowed to perform any executive functions in DYH under the Companies Act and (ii) Mr. Horiba is independent of our Company, Directors, Chief Executive Officer, substantial Shareholders, Controlling Shareholders, each of our subsidiaries and each of their respective associates.

Mr. Ichiro TAKANO (高野一郎) age 56
Independent non-executive Director

Mr. Takano was appointed as our outside Director (*shagai torishimariyaku* 社外取締役) with effect from 20 September 2011, the date of incorporation of our Company. He is also the chairman of our audit committee. Mr. Takano was re-appointed to the same positions on 20 June 2012.

Mr. Takano is currently a partner of Takano Law Offices, a legal practice based in Minato district (港区), Tokyo. He is also a statutory auditor (*kansayaku* 監査役) of Hikari Tsushin Inc., a supplier of mobile phones and office equipment, the shares of which are listed on the Tokyo Stock Exchange (TSE: 9435). Prior to his current positions, Mr. Takano had substantial experience in handling compliance matters under the Companies Act at a number of law firms in Tokyo, Japan between 1987 and 2005. He has obtained over 24 years' experience practicing as an attorney-at-law (*bengoshi* 弁護士) in Japan. Mr. Takano graduated from Waseda University in March 1980 with a bachelor's degree in law. He was admitted as an attorney-at-law in Japan in 1987.

Mr. Takano was appointed as an outside statutory auditor (*shagai kansayaku* 社外監査役) of DYH in October 2006. In March 2007, DYH underwent a restructuring in its corporate governance regime and Mr. Takano was re-designated as an outside director (*shagai torishimariyaku* 社外取締役) and a member of the audit committee of DYH. Following the incorporation of our Company, Mr. Takano has resigned from all positions he held within DYH.

Immediately following the completion of the [●], Mr. Takano will be interested in 20,000 Shares of our Company, representing less than 1% of our entire issued share capital. Save as disclosed herein, Mr. Takano has not been a director of any public company the securities of which are listed on a securities exchange in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Takano was an outside director (*shagai torishimariyaku* 社外取締役) of DYH between 29 March 2007 and 20 September 2011. Our Directors are of the view that this position does not affect Mr. Takano's independence under [●] because (i) as confirmed by our Japan Legal Adviser, Mr. Takano, as an outside director (*shagai torishimariyaku* 社外取締役), was not allowed to perform any executive functions in DYH under the Companies Act and (ii) Mr. Takano is independent of our Company, Directors, Chief Executive Officer, substantial Shareholders, Controlling Shareholders, each of our subsidiaries and each of their respective associates.

Mr. Yukio YOSHIDA (吉田行雄) age 66
Independent non-executive Director

Mr. Yoshida was appointed as our outside Director (*shagai torishimariyaku* 社外取締役) with effect from 20 September 2011, the date of incorporation of our Company. He is also a member of our audit committee. Mr Yoshida was re-appointed to the same positions on 20 June 2012.

Mr. Yoshida is an expert in the field of tax accounting. He was a founder of Yoshida Tax Accounting Office, a tax accounting practice based in Chiyoda district (千代田区), Tokyo. He began his career at Sapporo National Tax Agency in 1965. Subsequently, Mr. Yoshida became the deputy head of Fujisawa Tax Agency. He was then appointed by the Supreme Court of Japan as an examination officer and later became a director of Yokohama National Tax Agency between 2004 and 2005. In his previous positions with various national tax agencies across Japan, Mr. Yoshida has accumulated approximately 37 years of experience in tax accounting.

Mr. Yoshida is an active academic. He was named a professor of the National Tax College in July 1998 and was a visiting professor in the Economics Department at Toyo University in April 2006.

Since June 2008, Mr. Yoshida was an outside director (*shagai torishimariyaku* 社外取締役) and a member of the audit committee of DYH. Following the incorporation of our Company, Mr. Yoshida has resigned from all positions he held within DYH.

Mr. Yoshida graduated from Fuji Junior College (currently known as Tokyo Fuji University Junior College) in March 1971 with an associate degree in economics. He is a certified public tax accountant (*zeirishi* 税理士) recognised by Japan Federation of Certified Public Tax Accountants' Association. Immediately following the completion of the [●], Mr. Yoshida will be interested in 140,000 Shares of our Company, representing less than 1% of our entire issued share capital in compliance with [●]. Save as disclosed herein, Mr. Yoshida has not been a director of any public company the securities of which are listed on a securities exchange in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Yoshida was an outside director (*shagai torishimariyaku* 社外取締役) of DYH between 27 June 2008 and 20 September 2011. Our Directors are of the view that this position does not affect Mr. Yoshida's independence under [●] because (i) as confirmed by our Japan Legal Adviser, Mr. Yoshida, as an outside director (*shagai torishimariyaku* 社外取締役), was not allowed to perform any executive functions in DYH under the Companies Act and (ii) Mr. Yoshida is independent of our Company, Directors, Chief Executive Officer, substantial Shareholders, Controlling Shareholders, each of our subsidiaries and each of their respective associates.

Mr. Mitsutoshi KATO (加藤光利) age 54
Independent non-executive Director

Mr. Kato was appointed as our independent non-executive Director with effect from 29 February 2012. He is also a member of our nomination and remuneration committees. Mr. Kato was re-appointed to the same positions on 20 June 2012.

Mr. Kato has over 20 years' experience in the banking and financial industry in Japan, Hong Kong, the PRC and Europe. He began his career at The Bank of Tokyo Ltd. (currently known as The Bank of Tokyo Mitsubishi UFJ Ltd.) in April 1982. In April 1988, he was seconded to Kincheng-Tokyo Finance Company Limited as a manager for a period of two years until February 1990, when he joined Banque Indosuez (currently known as Credit Agricole Corporate and Investment Bank). Mr. Kato had since held various positions at the Tokyo branch of Credit

Agricole Indosuez, including the first vice president of the corporate finance department and the head of the project & structured finance department. He left Credit Agricole CIB in August 2005, and is currently the representative director and chief financial officer of Eco-Material Corporation, a Sino-Japanese clean technology venture in Japan.

Mr. Kato graduated from the State University of New York at Stony Brook with a bachelor's degree in arts, major in political science, in May 1980. Mr. Kato has not been a director of any public company the securities of which are listed on the securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Thomas Chun Kee YIP (葉振基) age 51
Independent non-executive Director

Mr. Yip was appointed as our independent non-executive Director on 29 February 2012. He is also a member of our audit committee. Mr. Yip was re-appointed to the same positions on 20 June 2012.

Mr. Yip has obtained around 29 years' experience in accounting, auditing and financial reporting. He is a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the Institute of Chartered Accountants in Australia. He is also a member of the Society of Chinese Accountants and Auditors, an associate of The Taxation Institute of Hong Kong, and a certified tax adviser in Hong Kong.

Mr. Yip began his professional career in accounting at Touche Ross & Co. Hong Kong, the predecessor of Deloitte Touche Tohmatsu in May 1984. In January 1986, he moved to Sydney and served as a senior accountant at Price Waterhouse Sydney. Mr. Yip returned to Hong Kong in December 1988 and joined the Hong Kong office of Price Waterhouse, where he spent around five years before being promoted to senior manager, audit in July 1994. Mr. Yip left the firm in December 2001 and continued his career as a principal and subsequently as a director at CCIF CPA Limited. In March 2008, he assumed his current position as a practising director of AIP Partners C.P.A. Limited, where he specialises in providing auditing, tax and accounting advice to Japanese clients.

Mr. Yip graduated from the University of Sydney with a bachelor's degree in economics in April 1984. With his current and previous positions in AIP Partners C.P.A. Limited and other professional accounting firms, our Directors are of the view that Mr. Yip possesses the appropriate professional qualifications and accounting and financial management expertise in compliance with [●]. Our Directors confirm that, during the one year immediately prior to Mr. Yip's appointment as an independent non-executive Director of our Company, AIP Partners C.P.A. Limited has not been providing professional services to our Company, members of our Group, our Controlling Shareholders, or any of their respective associates. In the three years immediately preceding the date of this document, Mr. Yip has not been a director of a public company the securities of which are listed on a securities exchange in Hong Kong or overseas.

Save as disclosed in this document, there is no other information in respect of each of our Directors that is required to be disclosed pursuant to [●] and there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

Executive Officers

Our Company is required to appoint a minimum of one Executive Officer, comprising one Chief Executive Officer (*daihyo shikkoyaku* 代表執行役). Under the Companies Act, our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役) is the legal representative of our Company with the authority to sign and effect agreements for and on behalf of our Company.

Our Executive Officers are key members of our senior management. Unlike our Directors, who are chiefly responsible for formulating business strategies, our Executive Officers directly manage the day-to-day operations of our Group and implement the business strategies devised by our Directors. Pursuant to our Articles of Incorporation, our Executive Officers, including our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役), are elected and appointed by way of Board resolutions and are under the direct supervision of our Directors.

Our Company has five Executive Officers: one Executive Officer concurrently appointed as Director; and four Executive Officers who are not Directors. Executive Officers who are not Directors are not engaged in decision-making on material matters that are required to be resolved at a meeting of the Board of Directors under the Companies Act or our Articles of Incorporation.

Mr. Sato, who serves concurrently as our executive Director, is our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役). The biographical information of Mr. Sato is contained above in the paragraphs headed "— Board of Directors" in this section above.

Below are the biographies of our Executive Officers who are not Directors:

Mr. Yukiharu UNO (宇野幸治) age 59
Executive Officer

Mr. Uno was appointed as our Executive Officer with effect from 1 January 2012. He is primarily responsible for the management of our day-to-day operations. Mr. Uno joined our Group in June 2011 as a statutory auditor (*kansayaku* 監査役) of Dynam.

Mr. Uno has obtained over 35 years' experience in banking and corporate management. He began his career in April 1976 at Dai-Ichi Kangyo Bank Limited, where he spent 26 years serving in various positions, including joint general manager of the New York branch and president of Dai-Ichi Kangyo Trust Co. of New York. Subsequently, Mr. Uno joined Mizuho Corporate Bank, Ltd. in April 2002 where he held different positions including the senior corporate officer of its asset management & transaction banking unit, as well as general manager of its Yokohama Corporate Banking Division.

Prior to his appointment at Dynam, Mr. Uno spent five years between June 2006 and June 2011 at Fujitsu Leasing Co., Ltd., a subsidiary of Fujitsu Limited, which is a computer manufacturer the shares of which are listed on the Tokyo Stock Exchange (TSE: 6702), Osaka Securities Exchange (OSE: 6702), Nagoya Stock Exchange (NSE: 6702) and London Stock Exchange (LSE: FUJ). During this period, he served in different positions, including the managing director, managing executive officer and statutory auditor (*kansayaku* 監査役) of Fujitsu Leasing Co., Ltd.

Mr. Uno graduated from the University of Tokyo in March 1976 with a bachelor's degree in economics. Save as disclosed herein, in the three years immediately preceding the date of this document, Mr. Uno has not been a director of any public company the securities of which are listed on a securities exchange in Hong Kong or overseas.

Mr. Shizuo OKAYASU (岡安静夫) age 55
Executive Officer

Mr. Okayasu was appointed as our Executive Officer with effect from 1 January 2012. He is primarily responsible for the day-to-day management of our operations.

Mr. Okayasu joined our Group in November 2004 as a manager of the general affairs department of Dynam. Since then, he has been substantially involved in the management and operations of Dynam and other operating subsidiaries of our Group and has detailed knowledge of our business. In September 2006, he was appointed as an executive officer (*shikko yakuin* 執行役員) of Dynam and concurrently served as a general manager of its general affairs department. Subsequently, Mr. Okayasu was transferred internally to DYH as a general manager of its corporate planning and strategy department, a position he resigned from on 20 September 2011, the date of incorporation of our Company. He served as a general manager of our corporate planning and strategy department prior to his current appointment as our Executive Officer.

Mr. Okayasu spent 28 years at Sumitomo Mitsui Banking Corporation between April 1980 and October 2008. During that period, he served in various positions at a number of branches in Tokyo, and also at the head office.

Mr. Okayasu graduated from Rikkyo University in March 1980 with a bachelor's degree in sociology. In the three years immediately preceding the date of this document, Mr. Okayasu has not been a director of any public company the securities of which are listed on a securities exchange in Hong Kong or overseas.

Mr. Hirobumi YONEHATA (米畑博文) age 53
Executive Officer and joint company secretary

Mr. Yonehata was appointed as our Executive Officer with effect from 1 January 2012. He is primarily responsible for the day-to-day management of our operation. Mr. Yonehata is also our joint company secretary and is the primary contact person with Ms. Mok.

Mr. Yonehata has over 30 years of experience in financial management and consolidated accounting under the IFRS through his various positions in a number of international corporations. Between July 2008 and January 2012, Mr. Yonehata worked for BASF Group, a chemical company the shares of which are listed on the London Stock Exchange (LSE: BFA), the Frankfurt Stock Exchange (FWB: BAS) and the Zurich Stock Exchange (SIX: AN). He served as the manager of finance of BASF Japan Ltd., a subsidiary of BASF Group between October 2011 and December 2011, as well as the chief financial officer of Cognis Japan Ltd., a subsidiary of BASF Group, between July 2008 and September 2011. During his service at BASF Group, Mr. Yonehata was involved in finance management affairs, including financial controlling, and accounting.

From April 1997 to June 2008, Mr. Yonehata served as a senior partner at Business Brain Showa-ota Inc., an accounting, information technology and management consulting firm the shares of which are listed on the Osaka Stock Exchange (OSE: 9658). His experience in the financial industry also includes senior management positions at Cobra Golf Japan Inc., a subsidiary of Cobra Golf Inc., the shares of which used to be listed on the New York Stock

Exchange (NYSE: FO), and Hoya Corporation, the shares of which are listed on the Tokyo Stock Exchange (TSE: 7741). With his previous positions in various institutions, Mr. Yonehata has considerable experience in the financial management of a public company.

Mr. Yonehata joined our Group in January 2012. He graduated from Hosei University with a bachelor's degree in business administration in March 1981. In the three years immediately preceding the date of this document, Mr. Yonehata has not been a director of any public company the securities of which are listed on a securities exchange in Hong Kong or overseas.

Mr. Hisao KATSUTA (勝田久男) age 60
Executive Officer

Mr. Katsuta was appointed as our Executive Officer with effect from 1 February 2012.

Mr. Katsuta has considerable knowledge of, and 26 years of experience in, corporate management, securities and corporate finance. Upon his graduation in March 1974, he joined Oji Paper Co., Ltd. at its Tomakomai Paper Mill.

Mr. Katsuta spent 26 years at Daiwa Securities Group, beginning in Daiwa Securities Co., Ltd. in June 1985. He held several senior positions at various entities within the Daiwa Securities Group, including the resident director of the Silicon Valley office of the Daiwa Institute of Research and the managing director of Daiwa Institute of Research (Hong Kong) Ltd. During this period, Mr. Katsuta's career endeavours have taken him to different appointments within the financial industry in Japan, Hong Kong, and the US. Prior to joining our Group, Mr. Katusta was the managing director of Daiwa Corporate Investment Asia Limited.

Mr. Katsuta graduated from the University of Tokyo with a bachelor's degree in arts in March 1974. He obtained a master's degree in business administration from Columbia University in May 1980. Mr. Katsuta is a licensed representative who is approved to carry on type 1, 4 and 6 regulated activities under the SFO. He is also qualified as a class one sales representative recognised by Japan Securities Dealers Association. In the three years immediately preceding the date of this document, Mr. Katsuta has not been a director of any public company the securities of which are listed on a securities exchange in Hong Kong or overseas.

Senior management

The following list sets forth certain information relating to the members of our senior management (other than our Directors) who are primarily responsible for the operation and management of our subsidiaries:

Name	Age	Position/Title in our Group
Mr. Kohei SATO (佐藤公平)	57	Member of the management strategy committee, *the Company* Representative director and president, *Dynam* Director, *Shinrainomori Association*
Mr. Kanetaka SATOH (佐藤金孝)	59	Representative director and president, *Okuwa Japan*
Mr. Masaaki HORIGUCHI (堀口昌章)	46	Representative director and president, *Cabin Plaza*

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position/Title in our Group
Mr. Kuniyuki ISHIZUKA (石塚邦幸). . . .	61	Representative director and president, *Daikokuten*
Mr. Kenichi ASAI (浅井健一)	66	Representative director and president, *Dynam Data*
Mr. Mitsuyuki SEKI (関光幸)	61	Representative director and president, *Dynam Land*
Mr. Shigeru FUKUMA (福間茂).	60	Representative director and president, *Dynam Advertisement*
Mr. Toshio SOGA (曽我稔夫)	44	Representative director and president, *P Trading*
Mr. Taro OKA (岡太郎)	51	Representative director and president, *Kanto Daido*
Mr. Haruhiko MORI (森治彦)	59	Member of the management strategy committee, *the Company* Director, *Dynam*
Mr. Hiroshi MIWA (三輪博)	63	Member of the management strategy committee, *the Company* Director, *Dynam*
Mr. Mamoru SAITO (斉藤守)	62	Member of the management strategy committee, *the Company* Director, *Dynam*
Mr. Makoto SAKAMOTO (坂本誠).	55	Member of the management strategy committee, *the Company* Director, *Dynam*

Mr. Kohei SATO (佐藤公平) age 57
Representative director and president, Dynam

Mr. Kohei SATO has been the representative director (*daihyo torishimariyaku* 代表取締役) and president of Dynam, our wholly-owned subsidiary, since June 2000. He is primarily responsible for overseeing the operation of our pachinko halls and the overall management and development of our *DYNAM* (ダイナム) brand as a leading chain operation of pachinko halls in Japan. He is also a director of Shinrainomori Association.

Mr. Kohei SATO joined Dynam in June 1995. He spent the majority of his career at Dynam and has held several senior management positions across different departments in Dynam. Between 1995 and 2000, he headed the corporate planning office and the sales department of Dynam, until he was appointed representative director (*daihyo torishimariyaku* 代表取締役) in June 2000. With his previous and current positions within Dynam, Mr. Kohei SATO has accumulated approximately 17 years of experience in the pachinko industry.

Prior to joining our Group, Mr. Kohei SATO worked for Takeda Riken Industry Co., Ltd. (currently known as Advantest Corporation), a large-scale semi-conductor manufacturer the shares of which are listed on the New York Stock Exchange (NYSE: ATE). In June 1985, he joined Kodak Co., Ltd., a subsidiary of Eastman Kodak Co., the shares of which used to be listed on the New York Stock Exchange (NYSE: EK).

Mr. Kohei SATO graduated from Tokyo University of Agriculture and Technology in March 1980 with a bachelor's degree in engineering. He received a master's degree in mechanical engineering from Tennessee Technological University in August 1982.

Mr. Kohei SATO is the younger brother of Mr. Sato. He is a Sato Family Member and a Controlling Shareholder of our Company.

Mr. Kanetaka SATOH (佐藤金孝) age 59
Representative director and president, Okuwa Japan

Mr. Kanetaka SATOH has been the representative director (*daihyo torishimariyaku* 代表取締役) and president of Okuwa Japan, our wholly-owned subsidiary, since June 2010. He is primarily responsible for the overall management and development of the operations of three pachinko halls in Mie Prefecture (三重県) and Aichi Prefecture (愛知県), operating under the brand name *Yasumi Jikan* (やすみ時間).

Mr. Kanetaka SATOH joined the sales department of Dynam in March 1993 and was subsequently promoted to deputy general manager of the machines sales department of Dynam. During his stay at Dynam, he worked in different departments, including its sales department, president's office, hall sales department, and gained experience in various aspects of our pachinko hall operations. He was previously a zone manager for our operations at Koriyama (郡山市) and Sendai (仙台市). Mr. Kanetaka SATOH resigned from his positions within Dynam in May 2010, before assuming his current position at Okuwa Japan.

Mr. Masaaki HORIGUCHI (堀口昌章) age 46
Representative director and president, Cabin Plaza

Mr. Horiguchi has been the representative director (*daihyo torishimariyaku* 代表取締役) and president of Cabin Plaza, our wholly-owned subsidiary, since November 2011. He is the head of our three pachinko halls in Fukushima Prefecture (福島県), operating under the brand *Cabin Plaza* (キャビンプラザ) as well as one pachinko hall located in Shizuoka Prefecture (静岡県), operating under the brand name *Yasumi Jikan* (やすみ時間).

Mr. Horiguchi joined Dynam in May 1989 and was subsequently promoted to deputy general manager of its machine sales department. During his years of service in Dynam, Mr. Horiguchi held various positions in a number of departments and gained substantial experience in different aspects of our pachinko hall operations, from sales and marketing to general corporate management. His local management experience includes being the zone manager for our operations in Nagoya (名古屋市), Aichi Prefecture (愛知県) and Kumamoto (熊本市), Kumamoto Prefecture (熊本県). In May 2011, Mr. Horiguchi was appointed as the general manager of the sales department in Dynam.

Mr. Horiguchi resigned from all positions he held within Dynam before assuming his current position in Cabin Plaza. He graduated from Honda Junior Public High School in Katsusika, Tokyo in March 1981.

Mr. Kuniyuki ISHIZUKA (石塚邦幸) age 61
Representative director and president, Daikokuten

Mr. Ishizuka has been the representative director (*daihyo torishimariyaku* 代表取締役) and president of Daikokuten, our wholly-owned subsidiary, since December 2009. He oversees the operation and management of two pachinko halls in Yamanashi Prefecture (山梨県) operating under the brand name *Yasumi Jikan* (やすみ時間).

Mr. Ishizuka has served our Group for over 17 years with his extensive experience in pachinko hall operations and sales and marketing. He joined the sales department of Dynam in November 1994, and was transferred to our pachinko hall at Nishinasuno (西那須野), Tochigi Prefecture (栃木県) as its store manager in October 1995. In April 1998, he was transferred to our headquarters and became a managing director of our sales department. Between October 2000 and April 2008, he has served different senior management positions at various departments of Dynam, including sales, hall management, and hall equipment, and game machines management. In June 2008, he was seconded to P Brand Planning, one of the Dissolved Entities, as its director and was chiefly responsible for developing private brand game machines. His current appointment in Daikokuten came in December 2009.

Mr. Ishizuka holds a diploma from Nihon University Tsurugaoka Senior High School. Prior to joining Dynam, he worked at Lotteria, a large-scale restaurant chain in Japan, from July 1978 to October 1994.

Mr. Kenichi ASAI (浅井健一) age 66
Representative director and president, Dynam Data

Mr. Asai has been the representative director (*daihyo torishimariyaku* 代表取締役) and president of Dynam Data, our wholly-owned subsidiary, since October 2003, and is primarily responsible for overseeing the provision of administrative services, such as accounting, payroll calculation, to members of our Group.

Mr. Asai joined Dynam in June 1996 as the deputy general manager of its accounting and finance department, and became the executive officer and the general manager of its accounting finance department in June 1999. In April 2003, he was promoted to several senior management positions within our Group, including director of Dynam Investment, director of Dynam Land, director of P Leasing and his current position as the director of Dynam Data. Since then, he has engaged in, and became chiefly responsible for, the accounting matters of our Group.

Mr. Asai graduated from Meiji University in March 1968 with a bachelor's degree in arts. He began his career at Sumisho Oil Corporation, where he worked for 28 years.

Mr. Mitsuyuki SEKI (関光幸) age 61
Representative director and president, Dynam Land

Mr. Seki has been the representative director (*daihyo torishimariyaku* 代表取締役) and president of Dynam Land, our wholly-owned subsidiary, since June 2010. He is primarily responsible for the management and administration of our staff quarters and properties occupied by our Group.

Mr. Seki joined our Group in July 1999 initially as a secondee from Saitama Bank Ltd., from which he resigned in September 2001. Upon his departure, he worked as the general manager of the corporate planning department in Dynam until he was promoted to its executive officer in September 2006. During this period, he was involved in the implementation and formulation of

the expansion strategies of our network of pachinko halls. Following the 2006 Restructuring, Mr. Seki was promoted to the general manager of the properties administration department in Dynam in November 2006, and subsequently as the general manager of the hall development department in Dynam in July 2008. Mr. Seki specialises in property management and development of new pachinko halls. In June 2010, he assumed his current position as the representative director of Dynam Land.

Mr. Seki also has over 20 years' experience in the banking industry through his service at Saitama Bank Ltd. He graduated from Chuo University in March 1973 with a bachelor's degree in economics.

Mr. Shigeru FUKUMA (福間茂) age 60
Representative director and president, Dynam Advertisement

Mr. Fukuma has been the representative director (*daihyo torishimariyaku* 代表取締役) and president of Dynam Advertisement, our wholly-owned subsidiary, since July 2010. He is primarily responsible for the marketing, advertising and public relations affairs of our Group.

Mr. Fukuma joined the corporate planning department of Dynam in January 1999. Between August 2000 and June 2010, he has held several positions in various departments of Dynam, specialising in a wide range of key functions of our pachinko hall operations, including corporate planning, auditing and general affairs. From July 2003 to March 2007, he worked at the president's office and corporate planning department of Dynam, assisting the president in the strategic planning of Dynam's overall operations. During his service in Dynam, he was held in charge of the corporate social responsibility program, focusing on enhancing the public relations and corporate image of Dynam. In June 2010, he resigned from his position in Dynam before he was appointed to his current position.

Mr. Fukuma began his career in April 1975 at Kyowa Hakko Kirin Co., Ltd., (formerly known as Kyowa Hakko Kogyo Co., Ltd.), a large-scale pharmaceutical company the shares of which are listed on the Tokyo Stock Exchange (TSE: 4151). Subsequently, he joined Rei Yoshimura International Inc. in January 1989 and Chuo Jutaku Co., Ltd. in November 1997. With his current and previous positions in our Group and in other institutions, Mr. Fukuma is experienced in advertising, public relations, marketing and general corporate management.

Mr. Fukuma graduated from Waseda University in March 1975 with a bachelor's degree in education.

Mr. Toshio SOGA (曽我稔夫) age 44
Representative director and president, P Trading

Mr. Soga has been the representative director (*daihyo torishimariyaku* 代表取締役) and president of P Trading, our wholly-owned subsidiary, since June 2011. He is primarily responsible for the deployment of pachinko and pachislot game machines across our network of pachinko halls in accordance with the preferences and trends of local pachinko players.

Mr. Soga has served our Group for over 22 years. He initially joined our pachinko hall in Shibata (新発田市), Niigata Prefecture (新潟県) in October 1989, and was subsequently promoted to store manager of our pachinko hall in Joetsu (上越市), Niigata Prefecture (新潟県) in September 1994. Between February 1995 and November 1997, he was in charge of two other pachinko halls in Akita (秋田市), Akita Prefecture (秋田県) and Yonezawa (米沢市), Yamagata Prefecture (山形県). Thereafter, he left the hall operation department and specialised in the

specifications, procurement and disposal of game machines. Mr. Soga has extensive experience in all aspects of our game machines trading business. He has served as a merchandiser, area chief and district manager of our operations across different geographical locations in Japan.

In July 2010, we consolidated our game machines trading business into P Trading. Consequently, Mr. Soga resigned from Dynam and was appointed as a director of P Trading in June 2011.

Mr. Taro OKA (岡太郎) age 51
Representative director and president, Kanto Daido

Mr. Oka is the representative director (*daihyo torishimariyaku* 代表取締役) and president of Kanto Daido, our wholly-owned subsidiary. He is primarily responsible for our trading business of second-hand pachinko and pachislot game machines.

Mr. Oka was appointed as the representative director (*daihyo torishimariyaku* 代表取締役) of Kanto Daido in January 2007. He remained in such position when Kanto Daido was acquired by P Leasing in July 2008. Mr. Oka began his career at Tanseisha Co., Ltd. in April 1984. Between January 1994 and April 2002, he worked for Creative Convention Centre Co., Ltd. His work in the trading of pachinko and pachislot game machines came in August 2002, when he joined the second-hand pachinko machines trading department of 3Stone Inc.

Mr. Oka graduated from Doshisha University in March 1984 with a bachelor's degree in arts.

Mr. Haruhiko MORI (森治彦) age 59
Director, Dynam

Mr. Mori has been a director of Dynam, our wholly-owned subsidiary, since 26 June 2007. He is primarily responsible in matters related to legal compliance, risk management, internal control and auditing of our Group and is the head of our internal control committee. Mr. Mori is also a member of our management strategy meeting.

Mr. Mori joined our Group in November 1998 initially in the general affairs department of Dynam. In August 2000, Mr. Mori was appointed as the head of legal department in Dynam and became chiefly responsible for legal compliance, risk management and internal control of our pachinko hall operations. In June 2002, he was promoted to executive officer (*shikko yakuin* 執行役員) of Dynam. His current position as a director of Dynam came in June 2007.

Mr. Mori graduated from Senshu University in March 1984 with a bachelor's degree in law. He spent over eight years in various law firms in Tokyo, specialising in compliance with the Companies Act.

Mr. Hiroshi MIWA (三輪博) age 63
Director, Dynam

Mr. Miwa has been a director of Dynam, our wholly-owned subsidiary, since June 2010. He is responsible for our sales and procurement operations. Mr. Miwa joined our Group in February 2008 as a statutory auditor (*kansayaku* 監査役) of Dynam. In June 2010, he was promoted to director of Dynam and became involved in the general corporate management of our pachinko hall operations. Mr. Miwa is also a member of our management strategy meeting.

Mr. Miwa graduated from Keio University in March 1972 with a bachelor's degree in economics. He began his career at Sumitomo Mitsui Banking Corporation, where he worked in various branches and departments. He subsequently joined Daiwa SB Investments Limited from June 2002 to January 2008. With his current and previous positions held within our Group and other institutions, Mr. Miwa has obtained over 30 years of experience in banking and corporate management.

Mr. Mamoru SAITO (斉藤守) age 62
Director, Dynam

Mr. Saito has been a director of Dynam, our wholly-owned subsidiary, since 26 June 2007. The principal duties of Mr. Saito include general corporate management, information technology, property management and logistics and distribution. Mr. Saito is also a member of our management strategy meeting.

Mr. Saito joined the corporate planning department of Dynam in December 1999, before he was promoted to its general manager in April 2000. Subsequently, he was promoted to executive officer *(shikko yakuin* 執行役員) of Dynam in December 2000 and as a director of Dynam in June 2007. During his stay with Dynam, Mr. Saito has been assisting Mr. Kohei SATO, the representative director (*daihyo torishimariyaku* 代表取締役) of Dynam, in formulating corporate strategies and executing business plans.

Prior to joining our Group, Mr. Saito has accumulated over 20 years of experience in the retail industry. He spent 27 years at Daiei Inc., a large-scale supermarket-chain in Japan the shares of which are listed on the Tokyo Stock Exchange (TSE: 8263). Mr. Saito graduated from Kyoto University of Education in March 1972 with a bachelor's degree in education.

Mr. Makoto SAKAMOTO (坂本誠) age 55
Director, Dynam

Mr. Sakamoto has been a director of Dynam, our wholly-owned subsidiary, since June 2011. He is in charge of our human resource management and is also a member of our management strategy meeting. Mr. Sakamoto began his career in Daiei Inc., a large-scale supermarket-chain in Japan the shares of which listed on the Tokyo Stock Exchange (TSE: 8263) upon graduation. Between September 2000 and October 2002, he worked for Big Boy Japan Co., Ltd. Thereafter, he joined Central Services System Co., Ltd in November 2002 until he left to work for Japan Sportsvision Co., Ltd from May 2003 to November 2003.

Mr. Sakamoto joined our Group in February 2004. He was promoted to the manager of the personnel department of Dynam in September 2005, a position he currently holds along with his other duties within our Group. In September 2006, he was promoted to executive officer *(shikko yakuin* 執行役員) of Dynam. With his current and previous positions held within our Group and other institutions, Mr. Sakamoto is experienced within the field of human resources management.

Mr. Sakamoto graduated from Waseda University in March 1980 with a bachelor's degree in social sciences.

JOINT COMPANY SECRETARIES

Mr. Hirobumi YONEHATA (米畑博文) age 53
Joint company secretary

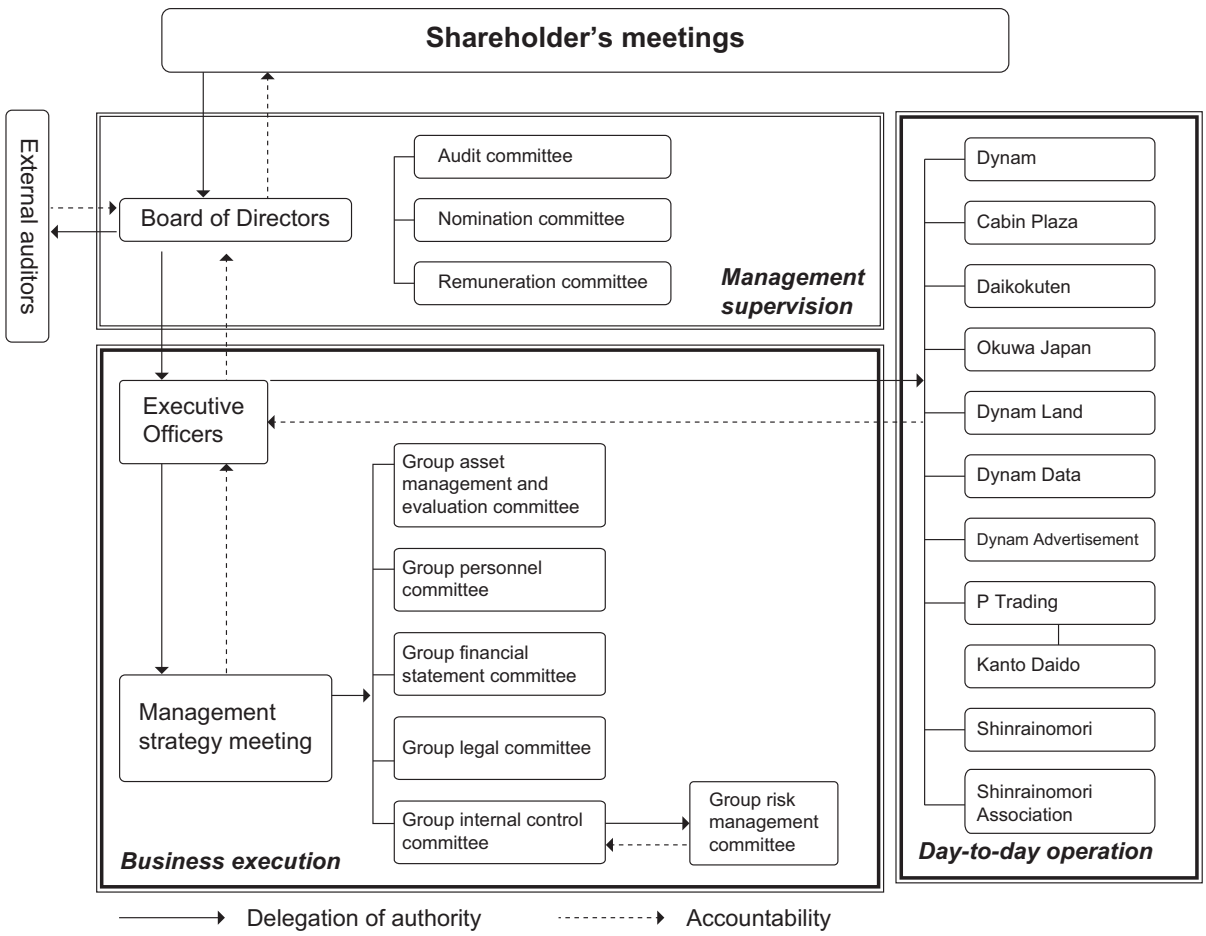
See "Senior management — Executive Officers" in this section above.

Ms. Ming Wai MOK (莫明慧) age 41
Joint company secretary

Ms. Mok was appointed as the joint company secretary of our Company on 20 June 2012. Ms. Mok is an associate director of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. She has over 15 years of professional and in-house experience in the company secretarial field. She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Mok serves as a joint company secretary of a number of public companies including Shanghai Pharmaceuticals Holdings Co., Ltd. (HKSE: 2607), Huaneng Renewables Corporation Limited (HKSE: 0958), New China Life Insurance Company Ltd (HKSE: 1336), China Hanking Holdings Limited (HKSE: 3788), Huadian Fuxin Energy Corporation Limited (HKSE: 0816) and Xiao Nan Guo Restaurants Holdings Limited (HKSE: 3666), and also acts as the sole company secretary of a number of public companies including C.banner International Holdings Limited (HKSE: 1028), Tenfu (Cayman) Holdings Company Limited (HKSE: 6868), SPT Energy Group Inc. (HKSE: 1251) and Kai Shi China Holdings Company Limited (HKSE: 1281).

CORPORATE GOVERNANCE

The following chart sets forth our organisational structure, which reflects our corporate governance regime:



Under the Companies Act, a stock company (*kabushiki-gaisha* 株式会社) is required to adopt either (a) statutory auditors (*kansayaku* 監査役) or a board of statutory auditors, the primary function of which is to supervise and audit the executive actions of the Directors or (b) a

Three-Committee system by establishing a nominating committee, a remuneration committee, and an audit committee. A vast majority of the companies listed on the Tokyo Stock Exchange have the Three-Committee system in place. To ensure management transparency and sound corporate governance, our Directors decided to adopt the Three-Committee system at the date of our incorporation.

Unlike a statutory auditor system where directors perform executive functions, our corporate governance enables the management supervisory function of our Directors to be separate from the business-execution functions of our Executive Officers. Under our corporate governance regime, the primary decision-making body is our Board of Directors, the role of which is primarily supervisory and strategic. Our Executive Officers are entrusted by our Board of Directors with tasks of business execution, which are subject to the oversight of our Board of Directors and the supervision of our audit committee. The majority of our Directors do not serve as Executive Officers, which reinforces the supervisory function of our Board of Directors.

Our organisational structure consists of a holding company (our Company), business companies and common function companies. Dynam, Okuwa Japan, Cabin Plaza, Daikokuten, Kanto Daido, Shinrainomori and P Trading are our business companies, which carry out the business activities of our Group. Dynam Land, Dynam Data, and Dynam Advertisement are common function companies that provide administrative services to our business function companies. The heads of each of our business segments are also the representative directors (*daihyo torishimariyaku* 代表取締役) and presidents of their respective business function companies, having the authority necessary to directly execute business activities within their scope of responsibility. They are accountable to our Executive Officers, who report directly to our Board. Hence, our Company is able to concentrate on management and governance with greater leadership ability, which enhances the effectiveness and efficiency of our corporate governance as a whole. Shinrainomori Association is a non-profit organisation separately managed by its two directors, Mr. Sato and Mr. Kohei SATO.

To enhance the operational efficiency, our Executive Directors convene management liaison meetings every other month with the representative directors (*daihyo torishimariyaku* 代表取締役) and presidents of our subsidiaries to share business information, develop synergies among our subsidiaries, and discuss management direction. In addition, our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役) also convenes monthly business report meetings separately with representatives from each of our subsidiaries to obtain a detailed understanding of the day-to-day business operations of our Group.

We recognise the importance of building, maintaining and improving upon a corporate governance regime that is transparent, fair and shareholder-oriented. Our Shareholders elect and appoint our Board of Directors, which in turn appoints our Executive Officers (including our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役)), whose executive actions are ultimately accountable to our Shareholders. Our general corporate strategies are formulated by our Board of Directors and implemented by our Executive Officers in our day-to-day operations. In order to facilitate timely and flexible responses to major changes in our business environment, our Board of Directors convenes once a month pursuant to our Articles of Incorporation to make decisions on important matters and monitor the execution of business decisions. In addition, our Company has five independent non-executive Directors who have a high degree of independence and no conflicts of interest with general stakeholders, representing a majority in our Board, thereby strengthening the monitoring of the management of our Group.

BOARD COMMITTEES

The Board delegates certain responsibilities to our Three Committees. In accordance with the Companies Act, [●], our Articles of Incorporation and the relevant laws and regulations in Hong Kong and Japan, we have formed the following Three Committees:

Audit committee

We established an audit committee pursuant to the Companies Act on 20 September 2011. Our audit committee consists of three independent non-executive Directors, namely Mr. Takano (chairman) and Mr. Yoshida and Mr. Yip. The primary duties of our audit committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. Our audit committee also monitors our Directors in fulfilling their fiduciary duties.

Remuneration committee

We established a remuneration committee pursuant to the Companies Act on 20 September 2011. Our remuneration committee consists two independent non-executive Directors, namely Mr. Horiba (chairman) and Mr. Kato, and one executive Director, namely Mr. Sato. The primary duties of our remuneration committee are to evaluate the performance of our Directors and senior management, determine the remuneration package of our Directors and senior management, and evaluate and make recommendations on employee benefits arrangements.

Nomination committee

We established a remuneration committee pursuant to the Companies Act on 20 September 2011. Our remuneration committee consists of two independent non-executive Directors, namely Mr. Horiba (chairman) and Mr. Kato, and one executive Director, namely Mr. Sato. The primary duties of our nomination committee are to make recommendations to our Shareholders on the appointment of our Directors and senior management.

We have limited the number of executive Directors in each of our Three Committees to one, representing a minority in each of these committee, as a means to enhance transparency and independent Shareholders' protection.

Sub-committees

Under the relevant laws and regulations in Japan, we are not required to have any statutory sub-committees of our Board of Directors. However, to enhance our corporate governance, we have certain non-statutory sub-committees in place. Except for our Group risk management committee, all of our sub-committees report to, and consult with, Mr. Sato, our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役*).*

Management strategy meeting

We established a management strategy meeting, a sub-committee with written regulations adopted by the Board of Directors on 28 September 2011. Our management strategy meeting consists of six members, including Mr. Sato, our executive Director, chairman of our Board and Chief Executive Officer (*daihyo shikkoyaku* 代表執行役), Mr. Kohei SATO, the representative

director (*daihyo torishimariyaku* 代表取締役) of Dynam, as well as Mr. Mori, Mr. Hiroshi MIWA, Mr. Mamoru SAITO and Mr. Makoto SAKAMOTO, each being a director of Dynam and a member of our senior management.

See "— Board of Directors" and "— Senior management" for further information on the qualification and experience of the members of our management strategy meeting. All members of our management strategy meeting have extensive experience and substantial knowledge in our Group's business operations. The management strategy meeting is our primary body overseeing the implementation of the strategies formulated by our Board. The primary duties of our management strategy meeting are to assist our Chief Executive Officer in fulfilling its executive functions. Information in relation to our business operations that is material to our Group as a whole is gathered, discussed and resolved at our management strategy meeting.

Our management strategy meeting reports directly to our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役). Mr. Sato was appointed as the chairman of our management strategy meeting.

To enhance the efficiency in handling significant business issues, we have established six specialised ancillary sub-committees under our management strategy meeting:

(1) **Group asset management and evaluation committee** — this committee was established on 28 September 2011 with written regulations adopted by our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役). The primary responsibilities of our group asset management and evaluation committee include formulating strategies to (i) effectively utilise our tangible and intangible assets; (ii) identify and establish criteria for finding suitable sites to expand our network of pachinko halls; (iii) evaluate and make decision on strategic acquisitions of property and land and (iv) establish standardised business models. Our group assets management and evaluation committee convenes once a month and reports directly to our management strategy meeting. Our asset management and evaluation committee is chaired by Mr. Sato, our executive Director, chairman of our Board and Chief Executive Officer (*daihyo shikkoyaku* 代表執行役) and consists of six members.

(2) **Group personnel committee** — this committee was established on 28 September 2011 with written regulations adopted by our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役). The primary responsibilities of our group personnel committee include (i) deployment of our staff members and assignment of work responsibilities; (ii) establishment of educational and training systems to prepare our staff members for future growth; and (iii) evaluation of our organisational structure with a view to control labour expenses. Our group personnel committee convenes once a month and reports directly to our management strategy meeting. Our personnel committee is chaired by Mr. Makoto SAKAMOTO, a director of Dynam and a member of our management strategy meeting, and consists of 11 members.

(3) **Group financial statement committee** — this committee was established on 28 September 2011 with written regulations adopted by our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役). The primary responsibilities of our group financial statement committee include enhancing our corporate governance by (i) independently reviewing our corporate documentation and financial statements; (ii) formulating corporate accounting policies for our Group; and (iii) dealing with any issue that arises out of our auditing procedures. Our group financial statement committee convenes once a month and reports directly to our management strategy meeting. Our group financial statement committee is chaired by Mr. Seiji OBE, general manager of Dynam's finance department, and consists of seven members.

(4) **Group legal committee** — this committee was established on 28 September 2011 with written regulations adopted by our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役). The primary responsibilities of our group legal committee include (i) providing professional opinions on any legal issue that may arise out of our business operations; and (ii) providing our senior management with legal knowledge that is essential to their decision-making process, such as updates on recent legal development. Our group legal committee convenes once a month and reports directly to our management strategy meeting. Our legal committee is chaired by Mr. Mori, a director of Dynam and member of our management strategy committee, and consists of two members.

(5) **Group internal control committee** — this committee was established on 28 September 2011 with written regulations adopted by our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役). The primary responsibilities of our group internal control committee are to formulate an internal reporting system for risk management and compliance issues, as well as to minimise violations of laws, regulations and our Articles of Incorporation. This is achieved by (i) reviewing the operations of our Group in compliance with our internal guidelines and procedures and business improvement system, and recommending measures for business improvements and its implementation system; (ii) identifying operational defaults that may potentially result in legal or regulatory non-compliance; (iii) establishing procedures to minimise the occurrence of operational risks; and (iv) reviewing and improving our internal control procedures. Our internal control committee convenes once a month and reports directly to our management strategy meeting. Our Group internal control committee is chaired by Mr. Mori, a director of Dynam and member of our management strategy committee, and consists of five members.

(6) **Group risk management committee** — this committee was established by our Group internal control committee on 28 September 2011 and reports directly to our Group internal control committee. Our group risk management committee is responsible for assessing and evaluating the types of risks faced by us in our operations, including money laundering risks and risks associated with compliance with the Three Party System. Our group risk management committee reviews these risks and the results of our internal audit activities and submits its reports to our audit committee once a month. It is chaired by Mr. Mori, a director of Dynam and member of our management strategy committee, and consists of three members.

See "Internal Controls and Anti-money Laundering" for further information on our internal controls and risk management procedures.

DIRECTORS' REMUNERATION

During the Relevant Period, no emoluments were paid by our Group to our Directors for the two years ended 31 March 2010 and 2011 and the six months ended 30 September 2011 as their emoluments were paid by DYH and were not changed to our Group during these periods. The emoluments of our Directors borne by DYH were approximately ¥457 million, ¥514 million and ¥278 million (equivalent to approximately HK$26 million), respectively, for each of the two years ended 31 March 2010 and 2011 and the six months ended 30 September 2011. For the six months ended 31 March 2012, the emoluments paid to our Directors by our Company were approximately ¥48.9 million (equivalent to approximately HK$4.6 million).

During the Relevant Period, no remuneration was paid by our Group to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group. No compensation was paid by our Group to, or receivable by, our Directors or the five

highest paid individuals for the years ended 31 March 2010, 2011 and 2012 for the loss of any office in connection with the management of the affairs of any subsidiary in our Group. In addition, none of our Directors waived any emolument for any of the last three years.

Save as disclosed above, no other payment has been paid or is payable, by our Company or any of our subsidiaries to our Directors and the five highest paid individuals during the Relevant Period.

Under the remuneration policy of our Company, our remuneration committee will consider factors such as salaries paid by comparable companies, time commitment, responsibilities and performance of our Directors and senior management as the case may be, in assessing the amount of remuneration payable to our Directors and such employees. We expect to incur approximately ¥67.7 million (equivalent to approximately HK$6 million) per annum in emoluments after the [●].

Our Directors anticipate that our remuneration committee will periodically review the compensation levels of key executives of our Group. Based on our Group's performance and the executives' respective contribution to our Group, our remuneration committee may, within the aggregate remuneration amount approved by a Shareholders' meeting of our Company, make recommendations to our Board of Directors as to salary increases or payments of discretionary bonuses.

DIRECTORS' INTERESTS

Mr. Sato, our executive Director, chairman of our Board and Chief Executive Officer (*daihyo shikkoyaku* 代表執行役), is our Controlling Shareholder. He also has a controlling stake in the Remaining DYH Group, which has some degree of connection to our business. Our Directors believe that the Retained Businesses carried out by the Remaining DYH Group does not compete, and is not likely to compete, either directly or indirectly, with our business. See "Relationship with our Controlling Shareholders" for further information.

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the independent reporting accountants, [●], Certified Public Accountants, Hong Kong.

(to insert the firm's letterhead) [Date]

Draft

The Board of Directors
株式会社ダイナムジャパンホールディングス
DYNAM JAPAN HOLDINGS Co., Ltd.*

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of 株式会社ダイナムジャパンホールディングス DYNAM JAPAN HOLDINGS Co., Ltd.* (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 March 2012 (the "Relevant Period") for inclusion in [●].

The Company was incorporated in Japan on 20 September 2011. Through a group reorganisation as more fully explained in the paragraph headed "Reorganisation" in Appendix V to this document (the "Reorganisation"), the Company has become the holding company of the Group since 1 December 2011.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 20 to the Financial Information.

All the companies now comprising the Group have adopted 31 March as the financial year end date. We acted as auditor of all the companies now comprising the Group for the Relevant Period except as disclosed below.

The statutory audited financial statements of the Company, 株式会社ダイナム DYNAM Co., Ltd.* ("Dynam") and 株式会社ダイナム土地建物 Dynam Land & Building Co., Ltd.* ("Dynam Land & Building") have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in Japan and were audited by the following certified public accountants registered in Japan.

Name of company	Financial year	Name of auditor
The Company.	Year ended 31 March 2012	Seiwa Audit Corporation and Shimbashi & Co.
Dynam.	Years ended 31 March 2010 and 2011	Shimbashi & Co.
	Year ended 31 March 2012	Seiwa Audit Corporation and Shimbashi & Co.
Dynam Land & Building.	Years ended 31 March 2011 and 2012	Shimbashi & Co.

* *For identification purpose only*

No audited financial statements of the Company have been prepared for the years ended 31 March 2010 and 2011 since the Company was incorporated on 20 September 2011.

No audited financial statements of Dynam Land & Building have been prepared for the year ended 31 March 2010 as there are no statutory audit requirements in the respective place of incorporation.

No audited financial statements of the following companies have been prepared for the Relevant Period as there are no statutory audit requirements in the respective place of incorporation.

Name of the company

株式会社キャビンプラザ Cabin Plaza Co., Ltd.* ("Cabin Plaza")

大黒天株式会社 Daikokuten Co., Ltd.* ("Daikokuten")

株式会社オークワジャパン Okuwa Japan Co., Ltd.* ("Okuwa Japan")

株式会社ダイナム情報処理 DYNAM Data Processing Co., Ltd.* ("Dynam Data Processing")

株式会社ダイナムPトレーディング Dynam P Trading Co., Ltd.* ("Dynam P Trading")

株式会社ダイナムアド企画 Dynam Advertisement Planning Co., Ltd.* ("Dynam Advertisement")

株式会社関東大同販売 Kanto Daido Selling Co., Ltd.* ("Kanto Daido")

株式会社信頼の森 Shinrainomori Co., Ltd.* ("Shinrainomori")

一般社団法人信頼の森 General Incorporated Association Shinrainomori* ("Shinrainomori Association")

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group for the Relevant Period in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IFRS Financial Statements").

We have performed our independent audit on the IFRS Financial Statements in accordance with International Standards on Auditing issued by the International Federation of Accountants ("IFAC") and have examined the IFRS Financial Statements in accordance with [●] issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared from the IFRS Financial Statements in accordance with IFRSs and on the basis of preparation set out in note 2 to the Financial Information. No adjustments were considered necessary for the purpose of preparing our report for inclusion in this document.

The Directors are responsible for the preparation of the IFRS Financial Statements and the contents of this document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the IFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report and on the basis of preparation set out in note 2 to the Financial Information, the Financial Information gives a true and fair view of the state of affairs of the Company as at 31 March 2012 and of the Group as at 31 March 2010, 2011 and 2012 and of the Group's results and cash flows for the Relevant Period.

FINANCIAL INFORMATION

A. Combined income statements

	Note	Year ended 31 March 2010	2011	2012
		¥ million	*¥ million*	*¥ million*
Revenue	7	165,461	169,637	165,078
Other income	8	6,898	6,962	6,572
Hall operating expenses	9	(134,787)	(144,239)	(138,785)
General and administrative expenses		(642)	(934)	(1,754)
Other operating expenses		(1,188)	(813)	(874)
Profit from operations		35,742	30,613	30,237
Finance costs	10	(2,442)	(2,137)	(1,833)
Profit before tax		33,300	28,476	28,404
Income tax expenses	11	(13,086)	(12,285)	(12,506)
Profit for the year attributable to owners of the Company	12	20,214	16,191	15,898
Earnings per share	16			
Basic (¥)		32.0	25.7	25.2
Diluted (¥)		N/A	N/A	N/A

B. Combined statements of comprehensive income

	Note	Year ended 31 March 2010	2011	2012
		¥ million	*¥ million*	*¥ million*
Profit for the year		20,214	16,191	15,898
Other comprehensive income:				
Fair value changes of available-for-sale financial assets		2	(30)	(10)
— Income tax arising from fair value changes thereof		(1)	12	3
Actuarial gains/(losses) on defined benefit retirement plans	38(d)	54	222	(194)
— Income tax arising from actuarial gains/(losses) thereof		(22)	(89)	82
Revaluation gain of freehold land upon reclassification from property, plant and equipment to investment properties		—	—	5
— Income tax arising from revaluation gain thereof		—	—	(2)
Other comprehensive income for the year, net of tax		33	115	(116)
Total comprehensive income for the year attributable to owners of the Company		20,247	16,306	15,782

C. Combined statements of financial position

	Note	At 31 March 2010	2011	2012
		¥ million	*¥ million*	*¥ million*
Non-current assets				
Property, plant and equipment	17	101,191	98,004	95,033
Investment properties	18	999	982	1,027
Intangible assets	19	1,775	1,678	1,489
Available-for-sale financial assets	21	5,093	5,357	509
Held-to-maturity investment	23	10	10	10
Deferred tax assets	39	12,572	11,549	10,864
Other long-term assets	24	11,750	11,426	10,658
Amount due from a related company	28(b)	—	2,800	—
Fixed bank deposits	29	597	355	—
		133,987	132,161	119,590
Current assets				
Inventories	25	5,981	4,747	4,531
Trade receivables	26	374	352	381
Prepayments, deposits and other receivables	27	2,948	2,321	3,415
Financial assets at fair value through profit or loss	22	377	—	—
Amounts due from related companies	28(a)	517	8,998	20
Fixed bank deposits	29	687	888	—
Bank and cash balances	30	22,087	17,460	28,524
		32,971	34,766	36,871
Current liabilities				
Trade payables	31	1,459	1,232	1,148
Accruals and other payables	32	19,329	17,600	21,090
Derivative financial instruments	33	272	200	62
Amounts due to related companies	34(a)	2,513	896	443
Borrowings	35	26,335	15,439	1,654
Finance lease payables	37	1,932	1,373	1,187
Provisions	41	1,309	1,318	1,460
Current tax liabilities		2,598	6,962	6,340
		55,747	45,020	33,384
Net current (liabilities)/assets		(22,776)	(10,254)	3,487
Total assets less current liabilities		111,211	121,907	123,077

	Note	At 31 March 2010	2011	2012
		¥ million	*¥ million*	*¥ million*
Non-current liabilities				
Derivative financial instruments	33	234	181	134
Amount due to a related company	34(b)	2,900	5,580	—
Borrowings	35	27,934	22,578	21,583
Finance lease payables	37	3,277	3,074	2,331
Retirement benefit obligations	38	1,502	1,462	1,804
Other long-term liabilities	40	371	347	338
Provisions	41	3,064	3,315	3,413
		39,282	36,537	29,603
NET ASSETS		71,929	85,370	93,474
Capital and reserves				
Share capital	42	5,540	6,100	5,000
Reserves	43	66,389	79,270	88,474
TOTAL EQUITY		71,929	85,370	93,474

D. Statement of financial position of the Company

	Note	At 31 March 2012
		¥ million
Non-current assets		
Property, plant and equipment	17	371
Intangible assets	19	9
Interests in subsidiaries	20	54,071
Amounts due from subsidiaries	20(b)	5,309
Other long-term assets	24	4
		59,764
Current assets		
Amounts due from subsidiaries	20(b)	186
Prepayments, deposits and other receivables	27	958
Amount due from a related company	28(a)	2
Bank and cash balances	30	2,167
		3,313
Current liabilities		
Accruals and other payables	32	123
Provisions	41	4
Amounts due to subsidiaries	20(c)	3,241
Financial guarantee liabilities	45	307
		3,675
Net current liabilities		(362)
Total assets less current liabilities		59,402
Non-current liabilities		
Amount due to a subsidiary	20(d)	2,800
Retirement benefit obligations	38	11
Deferred tax liabilities	39	237
		3,048
NET ASSETS		56,354
Capital and reserves		
Share capital	42	5,000
Reserves	43(b)	51,354
TOTAL EQUITY		56,354

E. Combined statements of changes in equity

	Attributable to owners of the Company									
	Share capital	Investment revaluation reserve (Note 43(b)(i))	Capital reserve (Note 43(b)(ii))	Capital surplus (Note 43(b)(iii))	Legal reserve (Note 43(b)(iv))	Other capital surplus (Note 43(b)(v))	Other reserves (Note 43(b)(vi))	Retained profits	Proposed dividend	Total equity
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*
At 1 April 2009	5,040	10	30	40	523	–	4	49,047	1,650	56,344
Total comprehensive income for the year	–	1	–	–	–	–	32	20,214	–	20,247
Increase due to acquisition of subsidiaries	–	–	1,350	–	–	–	–	–	–	1,350
Increase in share capital of subsidiaries.	500	–	230	500	–	–	–	–	–	1,230
2009 final dividend paid	–	–	–	–	–	–	–	–	(1,650)	(1,650)
2010 interim dividend paid	–	–	–	–	–	–	–	(5,592)	–	(5,592)
2010 proposed final dividend.	–	–	–	–	–	–	–	(1,653)	1,653	–
Transfer	–	–	–	–	717	–	–	(717)	–	–
Total changes in equity for the year	500	1	1,580	500	717	–	32	12,252	3	15,585
At 31 March 2010 and 1 April 2010	5,540	11	1,610	540	1,240	–	36	61,299	1,653	71,929
Total comprehensive income for the year	–	(18)	–	–	–	–	133	16,191	–	16,306
Increase due to incorporation of subsidiaries	60	–	–	–	–	–	–	–	–	60
Increase due to acquisition of a subsidiary	–	–	30	–	–	–	–	–	–	30
Increase in share capital of subsidiaries.	500	–	340	500	–	–	–	–	–	1,340
2010 final dividend paid	–	–	–	–	–	–	–	–	(1,653)	(1,653)
2011 interim dividend paid	–	–	–	–	–	–	–	(2,642)	–	(2,642)
2011 proposed final dividend.	–	–	–	–	–	–	–	(1,670)	1,670	–
Transfer	–	–	–	–	17	–	–	(17)	–	–
Total changes in equity for the year	560	(18)	370	500	17	–	133	11,862	17	13,441
At 31 March 2011 and 1 April 2011	6,100	(7)	1,980	1,040	1,257	–	169	73,161	1,670	85,370
Total comprehensive income for the year	–	(7)	–	–	–	–	(109)	15,898	–	15,782
Change due to incorporation of the Company.	(1,100)	–	(46,599)	210	–	49,533	–	–	–	2,044
2011 final dividend paid	–	–	–	–	–	–	–	–	(1,670)	(1,670)
2012 interim dividend paid	–	–	–	–	–	(1,262)	–	(6,790)	–	(8,052)
Total changes in equity for the year	(1,100)	(7)	(46,599)	210	–	48,271	(109)	9,108	(1,670)	8,104
At 31 March 2012	5,000	(14)	(44,619)	1,250	1,257	48,271	60	82,269	–	93,474

F. Statement of changes in equity

Company

	Attributable to owners of the Company					
	Share capital	Capital surplus (Note 43(b)(iii))	Other capital surplus (Note 43(b)(v))	Other reserves (Note 43(b)(vi))	Retained profits	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*
Total comprehensive income for the year	—	—	—	1	1,832	1,833
Additions arising from acquisition of the entire interest of Main Group and the Operating Assets and Liabilities from Dynam Holdings	5,000	1,250	49,533	—	—	55,783
2012 interim dividend paid	—	—	(1,262)	—	—	(1,262)
Total changes in equity for the year and at 31 March 2012	5,000	1,250	48,271	1	1,832	56,354

G. Combined statements of cash flows

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	33,300	28,476	28,404
Adjustments for:			
Finance costs	2,442	2,137	1,833
Interest income	(37)	(76)	(47)
Dividends income	(220)	(231)	(127)
Depreciation	11,402	11,462	10,804
Exchange loss	—	—	352
Amortisation of intangible assets	345	549	495
Loss on disposals and write off of property, plant and equipment	207	241	230
Intangible assets written off	3	—	94
Impairment loss/(reversal of impairment loss) on property, plant and equipment	421	(352)	226
Fair value loss on investment properties	23	17	21
Impairment loss on available-for-sale financial assets	9	9	1
Impairment loss on other long-term assets	59	46	58
Net (gain)/loss on financial assets at fair value through profit or loss	(16)	99	—
Provision for retirement benefit obligation	232	251	259
Provision for staff vacation payable	104	7	142
Unrealised gain on derivative financial instrument	(150)	(125)	(247)
Gain on bargain purchases	(766)	—	—
Operating profit before working capital changes	47,358	42,510	42,498
(Increase)/decrease in inventories	(1,786)	1,258	216
(Increase)/decrease in trade receivables	(40)	22	(29)
(Increase)/decrease in other long-term assets	(173)	(32)	646
(Increase)/decrease in prepayments, deposits and other receivables	(724)	655	(1,083)
Decrease in amounts due from related companies	136	13	51
Increase/(decrease) in trade payables	181	(291)	(84)
(Decrease)/increase in accruals and other payables	(2,879)	(1,857)	3,349
Decrease in other long-term liabilities	(20)	(24)	(9)
Decrease in retirement benefit obligation	(56)	(70)	(117)
Decrease in amounts due to related companies	(146)	(227)	(236)
Cash generated from operations	41,851	41,957	45,202
Income taxes paid	(20,429)	(6,975)	(12,360)
Finance costs paid	(2,193)	(1,583)	(936)
Net cash generated from operating activities	19,229	33,399	31,906

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(11,133)	(6,152)	(7,471)
Purchase of intangible assets	(1,197)	(415)	(392)
Proceeds from disposals of property, plant and equipment	—	5	6
Net inflow from acquisition of subsidiaries	944	279	—
Decrease in fixed bank deposit	1,108	41	1,243
Decrease/(increase) in amounts due from related companies	46	(11,294)	17,438
Purchase of available-for-sale financial assets	(110)	(25)	—
Proceeds from disposal of available-for-sale financial assets	32	6	—
Interest received	37	76	47
Dividend received	220	231	127
Net cash (used in)/generated from investing activities	(10,053)	(17,248)	10,998
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans raised	43,098	13,850	22,000
Convertible bonds raised	—	—	4,999
Repayment of bank loans	(43,305)	(30,527)	(37,453)
Repayment of finance lease	(2,688)	(2,058)	(1,428)
Repayment of convertible bonds	—	—	(5,368)
Increase/(decrease) in amounts due to related companies	1,347	852	(16,947)
Proceeds from issuance of shares of subsidiaries	1,230	1,400	—
Proceeds from incorporation of the Company under the Reorganisation	—	—	7,242
Dividends paid	(7,242)	(4,295)	(4,885)
Net cash used in financing activities	(7,560)	(20,778)	(31,840)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,616	(4,627)	11,064
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,471	22,087	17,460
CASH AND CASH EQUIVALENTS AT END OF YEAR	22,087	17,460	28,524
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	22,087	17,460	28,524

H. Notes to the financial information

1. General information

The Company was incorporated in Japan under the Companies Law with limited liability on 20 September 2011. The address of its registered office and principal place of business are 2-25-1-702 Nishi-Nippori, Arakawa-ku, Tokyo 116-0013, Japan.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 20 to the Financial Information.

2. Basis of preparation of financial information

The companies now comprising the Group are under the common control of the shareholders of 株式会社ダイナムホールディングス DYNAM HOLDINGS Co., Ltd.* ("Dynam Holdings"). Pursuant to the Reorganisation, the Company acquired the entire interests and control of Dynam, Dynam Land & Building, Cabin Plaza, Daikokuten, Okuwa Japan, Dynam Data Processing, Dynam P Trading, Dynam Advertisement and Shinrainomori Association (collectively, the "Main Group") and operating assets and liabilities ("Operating Assets and Liabilities") on 20 September 2011 by way of issue of shares under company split and the entire interests of Kanto Daido and Shinrainomori (collectively, the "Second Group") on 1 December 2011 by way of cash, and the Company became the holding company of the Group.

The Reorganisation is more fully explained in Appendix V to this document in the paragraph headed "Reorganisation".

As the Company, the Main Group, Operating Assets and Liabilities and the Second Group were both controlled by the shareholders of Dynam Holdings before and after the Reorganisation, the Reorganisation was accounted for as a business combination of entities under common control. The financial statements of the Group have been prepared based on the principles and procedures of merger accounting as if the Reorganisation had occurred from the date when the combining entities first came under the control of the shareholders of Dynam Holdings.

The combined financial statements incorporate the financial statements of the combining entities as if they had been combined from the date when they first came under the control of the shareholders of Dynam Holdings.

The combined income statements and statements of comprehensive income and combined statements of cash flows include the results and cash flows of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The combined statements of financial position have been prepared to present the assets and liabilities of the combining entities as if the Group structure as at the date of this report had been in existence at the end of each reporting period. The net assets of the combining entities are combined using the existing book values from the shareholders' perspective of Dynam Holdings. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the shareholders' interest of Dynam Holdings.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

3. Adoption of new and revised international financial reporting standards

During the Relevant Period, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for accounting periods beginning on 1 April 2011. IFRSs comprise International Financial Reporting Standards; International Accounting Standards; and Interpretations.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

4. Significant accounting policies

The Financial Information has been prepared in accordance with IFRSs and the [●].

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, investment properties, derivative financial instruments and financial assets at fair value through profit or loss which are carried at their fair values.

The preparation of Financial Information in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information are disclosed in note 5 to the Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Consolidation

The Financial Information includes the financial statements of the Group made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Merger accounting for business combination under common control

As the Company, the Main Group, Operating Assets and Liabilities and the Second Group were both controlled by the shareholders of Dynam Holdings before and after the Reorganisation, the Reorganisation was accounted for as a business combination of entities under common control. The financial statements of the Group have been prepared based on the principles and procedures of merger accounting as if the Reorganisation had occurred from the date when the combining entities first came under the control of the shareholders of Dynam Holdings.

The combined income statements and statements of comprehensive income and combined statements of cash flows include the results and cash flows of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The combined statements of financial position have been prepared to present the assets and liabilities of the combining entities as if the Group structure as at the date of this report had been in existence at the end of each reporting period. The net assets of the combining entities are combined using the existing book values from the shareholders' perspective of Dynam Holdings. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the shareholders' interest of Dynam Holdings.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

(c) Business combination (other than under common control) and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (note 4(ac)) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The combined financial statements are presented in Japanese yen ("¥"), which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis and reducing balance basis. The principal useful lives are as follows:

Freehold land	Not applicable
Buildings including leasehold improvements	2–50 years
Tools and equipment	4–20 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings and structures under construction, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(f) Investment properties

Investment properties are land and/or buildings and structures held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment as appropriate, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

(g) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives as follows:

Trademarks	10 years
Computer software	5 years

(h) Leases

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

(i) Club membership

Club membership with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club membership has suffered an impairment loss.

(j) Inventories

(i) Prize

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis.

(ii) Supplies

Inventories represent pachinko and pachislot machineries and consumables for use in the operation of halls and are stated at the lower of cost and net realisable value. Cost is determined on the first in, first out basis.

(k) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a

financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(l) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

(i) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

An impairment loss is recognised in profit or loss when there is objective evidence that the held-to-maturity investments are impaired, and is measured as the difference between the investments' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the investments' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investments at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted instruments, they are measured at cost less any identified impairment losses at the end of each reporting period.

(m) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(n) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(o) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out from note 4(p) to 4(t) to the Financial Information.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(q) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(s) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

— the amount of the obligations under the contracts, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

— the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

(t) Convertible bonds

Convertible bonds which entitle the holder to convert the loans into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments which consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognised in profit or loss. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components on initial recognition.

(u) Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value at the end of reporting period.

The resulting gain or loss is recognised in profit or loss immediately.

(v) Revenue recognition

Gross pay-ins represents the amount received from pachinko balls and pachislot tokens rented to customers less unutilised balls and tokens. Gross payouts represent the aggregate cost of G-prize and general prize exchanged by customers. Revenue from pachinko and pachislot games represent the gross pay-ins, less gross payouts to customers.

Commission incomes from vending machines and in-store sales are recognised on an accrual basis in accordance with the terms and conditions of the agreement.

Income from forfeiture of unutilised pachinko balls and pachislot tokens are recognised in accordance with the terms and conditions of the card and membership agreement.

Income from forfeiture of unused pre-paid IC cards (representing the value of unutilised balls and tokens) is recognised after 20-day period upon the card issuance.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

Dividend income is recognised when the shareholders' rights to receive payment are established.

(w) Pachinko and pachislot machine expenses

Pachinko and pachislot machine expenses are recognised in profit or loss when it is installed for use in the operation of pachinko hall.

(x) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

(ii) Defined contribution retirement plans

The Group contributes to defined contribution retirement plans which are available to all eligible employees. Contributions to the plans by the Group are calculated as a percentage of employees' basic salaries. The retirement benefit plan cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Defined benefit retirement plans

The group's obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

Where there is a change in actuarial assumptions, the resulting actuarial gains and losses are recognised directly in the combined statements of comprehensive income.

(y) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for the intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying assets, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(z) Government grants

Government grants relating to the purchase of assets are deducted from the carrying amount of the assets. The grant is recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation charge.

(aa) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(ab) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(ac) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstance indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investment properties, investments, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(ad) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(ae) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the reporting period that are not adjusting events are disclosed when material.

5. Critical judgements and key estimates

(a) Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the Financial Information.

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the operation of pachinko halls. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the operation of pachinko halls. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgement.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period, are discussed below.

Fair value of certain asset and liabilities involving valuation technique

During the Group's acquisitions of certain businesses as set out in note 44(a) to the Financial Information, valuation techniques were applied to determine the fair values of the acquired assets, liabilities and contingent liabilities. Furthermore, the investment properties, available-for-sale financial assets, financial assets at fair value through profit or loss and fair value of derivative financial instruments as set out in note 18, note 21, note 22 and note 33 to the Financial Information respectively also involve valuation techniques. When applying valuation techniques, various subjective assumptions and generally accepted methodologies were used to derive the fair values. Any changes in these assumptions can significantly affect the estimate of the fair value of the underlying assets and liabilities.

Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Details of the impairment loss calculation are provided in note 19 to Financial Information.

Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment has any indication of impairment in accordance with the accounting policy. The recoverable amount of property, plant and equipment has been determined based on value-in-use calculation. This calculation requires the use of judgement and estimates.

Intangible assets and amortisation

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. The useful lives of intangible assets are assessed to be either finite or indefinite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with a finite useful life are reviewed by the management at least at the end of each reporting period.

Impairment of available-for-sale financial assets

The Group determines whether the unlisted equity investment is impaired at least on an annual basis and based on the financial information available from the unlisted equity investment. Details are set out in note 21 to the Financial Information.

Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

Income taxes

The Group is subject to income taxes in Japan. Significant estimates are required in determining the provision for income taxes. Should the final assessment of tax authorities were different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions during the Relevant Period.

6. Financial risk management

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Price risk

The Group's available-for-sale financial assets and financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk mainly through its investments in listed equity securities and unlisted convertible bonds. These investments are held from a viewpoint of business strategy, not for short term trading purpose. The Group will not sell these investments frequently and the Group periodically reviews the fair value of these investments as well as the financial condition of investees.

The table below summaries the impact of increase/decrease of the share prices of underlying financial instruments of the investments on the consolidated profit after tax for the year and on the consolidated other comprehensive income after tax. The analysis stated below is based on the assumption that the underlying share prices of financial instruments had increased/decreased by 5% with all other variables held constant.

Impact on consolidated profit after tax:

Increase/(decrease) in share prices	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
5%	13	—	—
(5%)	(11)	—	—

Impact on consolidated other comprehensive income after tax:

Increase/(decrease) in share prices	At 31 March 2010	2011	2012
	¥ million	*¥ million*	*¥ million*
5%	5	13	12
(5%)	(5)	(13)	(12)

(c) Credit risk

The carrying amount of the bank and cash balances, derivative financial instruments, trade receivables such as commission income from vending machines, other receivables and amounts due from related companies included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets. The Group has policies in place to ensure that the Group's third party vending machine operators have appropriate credit histories.

The credit risk on bank and cash balances and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In order to minimise credit risk, management have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

(d) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements, its compliance with lending covenants and its relationship with its bankers to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Maturity Analysis — undiscounted cash outflows				
	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*
At 31 March 2010					
Trade payables	1,459	—	—	—	1,459
Accruals and other payables	19,329	—	—	—	19,329
Derivative financial instruments	272	174	66	(6)	506
Amounts due to related companies	2,584	246	614	2,669	6,113
Finance lease payables	2,119	1,239	2,269	—	5,627
Borrowings	27,532	14,052	13,688	1,457	56,729
Other long-term liabilities	—	—	—	124	124
	53,295	15,711	16,637	4,244	89,887
At 31 March 2011					
Trade payables	1,232	—	—	—	1,232
Accruals and other payables	17,600	—	—	—	17,600
Derivative financial instruments	200	103	82	(4)	381
Amounts due to related companies	1,065	286	1,697	4,538	7,586
Finance lease payables	1,529	1,189	2,062	—	4,780
Borrowings	16,394	11,419	10,152	2,131	40,096
Other long-term liabilities	—	—	—	139	139
	38,020	12,997	13,993	6,804	71,814
At 31 March 2012					
Trade payables	1,148	—	—	—	1,148
Accruals and other payables	21,090	—	—	—	21,090
Derivative financial instruments	62	48	76	10	196
Amounts due to related companies	443	—	—	—	443
Finance lease payables	1,302	1,280	1,150	—	3,732
Borrowings	17,919	1,446	3,583	1,118	24,066
Other long-term liabilities	—	—	—	146	146
	41,964	2,774	4,809	1,274	50,821

(e) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits, bank loans, syndicated loans and amounts due from/(to) related companies. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 March 2010, 2011 and 2012, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit after tax for the year as follows:

Increase/(decrease) in interest rates	At 31 March 2010	2011	2012
	¥ million	*¥ million*	*¥ million*
25 basis points	(34)	(14)	(24)
(25) basis points	34	14	24

The sensitivity analysis above indicates the impact on the Group's profit for the year and retained profits that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis throughout the Relevant Period.

During the Relevant Period, the Group has been using interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows.

At 31 March 2010, 2011 and 2012, if the underlying interest rate for computation of the fair value of interest rate swap contracts at the end of each reporting period increase/decrease 25 basis points with all other variables held constant, would have increased/decreased the Group's profit after tax for the year as a result of change in the fair value of derivative financial instruments as follows:

Increase/(decrease) in interest rates	At 31 March 2010	2011	2012
	¥ million	*¥ million*	*¥ million*
25 basis points	75	61	28
(25) basis points	(76)	(61)	(28)

(f) Categories of the Group's financial instruments at the end of each reporting period

	At 31 March 2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Financial assets:			
Available-for-sale financial assets	5,093	5,357	509
Financial assets at fair value through profit or loss	377	—	—
Held-to-maturity investment	10	10	10
Loans and receivables (including cash and cash equivalents)	29,769	36,305	34,373
Financial liabilities:			
Derivative financial instruments	506	381	196
Financial liabilities at amortised cost	76,734	59,222	41,793

(g) Fair value

The following disclosures of fair value measurements use a fair value hierarchy which has three levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy at 31 March 2010, 2011 and 2012:

At 31 March 2010

	Fair value measurement using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
	¥ million	***¥ million***	***¥ million***	***¥ million***
Assets:				
Available-for-sale financial assets	151	—	—	151
Financial assets at fair value through profit or loss	—	377	—	377
Liabilities:				
Derivative financial instruments	—	506	—	506

At 31 March 2011

	Fair value measurement using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
	¥ million	***¥ million***	***¥ million***	***¥ million***
Assets:				
Available-for-sale financial assets	424	—	—	424
Financial assets at fair value through profit or loss	—	—	—	—
Liabilities:				
Derivative financial instruments	—	381	—	381

At 31 March 2012

	Fair value measurement using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
	¥ million	***¥ million***	***¥ million***	***¥ million***
Assets:				
Available-for-sale financial assets	414	—	—	414
Financial assets at fair value through profit or loss	—	—	—	—
Liabilities:				
Derivative financial instruments	—	196	—	196

7. Revenue

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group has carried on a single business in a single geographical location, which is the operation of pachinko halls in Japan, and all the assets are located in Japan. Accordingly, there is only one single reportable segment of the Group which is regularly reviewed by the chief operating decision maker.

The Group's customer base is diversified and there are no customers with whom transactions have exceed 10% of the Group's revenue.

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Gross pay-ins	862,023	859,882	908,309
Less: gross payouts	(696,562)	(690,245)	(743,231)
Revenue	165,461	169,637	165,078

8. Other income

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Bank interest income	2	2	1
Commission income from vending machines and in-store sales	3,690	4,024	4,163
Dividends income	220	231	127
Fair value gain on financial assets at fair value through profit or loss	16	—	—
Gain on bargain purchase	766	—	—
Net gain on disposals of used machines	462	635	453
Income from forfeiture of unutilised balls and tokens	311	315	332
Interest income on loan to related companies	35	72	46
Rental income	832	877	845
Reversal of impairment losses on property, plant and equipment	—	352	—
Others	564	454	605
	6,898	6,962	6,572

9. Hall operating expenses

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Advertising expenses	6,343	7,666	6,265
Cleaning and ancillary services	4,612	4,228	4,273
Depreciation charges	11,399	11,453	10,788
G-prize expenses	4,283	4,593	4,831
Hall staff costs	43,094	45,944	46,297
Pachinko and pachislot machine expenses	35,693	41,290	35,739
Rental	9,583	10,043	10,166
Repair and maintenance	3,136	2,967	3,889
Utilities expenses	4,595	4,901	4,716
Others	12,049	11,154	11,821
	134,787	144,239	138,785

10. Finance costs

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Bond and convertible bonds interest expenses	60	25	39
Finance leases charges	192	228	165
Interest on machines instalment payables	239	—	—
Interest expenses on loan from related companies	16	151	82
Interest on bank loans and syndicated loans			
— Wholly repayable within five years	1,076	747	428
— Not wholly repayable within five years	2	130	135
Total borrowing costs	1,585	1,281	849
Amortisation of syndicated loan bank charges	774	769	872
Amortisation of bond issuance cost	15	9	—
Loss on redemption of convertible bonds	—	—	40
Provision, unwinding of discount	63	69	70
Others	5	9	2
	2,442	2,137	1,833

11. Income tax expenses

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Current tax — Japan			
Provision for the year	9,775	11,336	11,737
Under provision in prior years	15	3	1
	9,790	11,339	11,738
Deferred tax *(note 39)*	3,296	946	768
	13,086	12,285	12,506

No provision for Hong Kong Profits Tax has been made for the Relevant Period as the Group did not generate any assessable profits arising in Hong Kong during that period.

Profits tax arising in Japan (the "Japan Profits Tax") is calculated at the rates prevailing in Japan during Relevant Period. The rates for the companies throughout the Relevant Period are as follows:

	Year ended 31 March		
	2010	2011	2012
The Company	—	—	40.7%
Dynam	40.7%	40.7%	40.7%
Cabin Plaza	41.2%	41.2%	41.2%
Daikokuten	41.5%	41.5%	41.5%
Okuwa Japan	—	40.1%	40.1%
Dynam Land & Building	42.1%	40.7%	40.7%
Dynam Data Processing	42.1%	42.1%	42.1%
Dynam P Trading	—	42.1%	42.1%
Dynam Advertisement	—	40.9%	40.9%
Kanto Daido	40.9%	40.9%	40.9%
Shinrainomori	40.9%	40.9%	40.9%
Shinrainomori Association	40.7%	40.7%	40.7%

Under the Tax Reform 2011 announced by The Ministry of Finance of Japan in December 2011 that the corporate income tax rate will be cut by 1.95% from 30.00% to 28.05% from the fiscal years beginning on or after 1 April 2012 to 2014, and further reduced by 2.55% from 28.05% to 25.50% from the fiscal years beginning on or after 1 April, 2015. Consequently, the effective corporate tax rate, including the corporate income tax, resident tax and business tax, will be reduced by approximately 5.1% from 40.7% to 35.6% as follows:

	Effective tax rate		
	Y/E 2012	Y/E 2013–Y/E 2015	Y/E 2016
The Company	40.7%	38.0%	35.6%
Dynam	40.7%	38.0%	35.6%
Cabin Plaza	41.2%	38.6%	36.3%
Daikokuten	41.5%	38.9%	36.6%
Okuwa Japan	40.1%	37.5%	35.1%
Dynam Land & Building	40.7%	38.0%	35.6%
Dynam Data Processing	42.1%	39.4%	37.1%
Dynam P Trading	42.1%	39.4%	37.1%
Dynam Advertisement	40.9%	38.4%	36.1%
Kanto Daido	40.9%	38.4%	36.1%
Shinrainomori	40.9%	38.4%	36.1%
Shinrainomori Association	40.7%	38.0%	35.6%

The reconciliation between the income tax expenses and the product of profit before tax multiplied by the Japan Profits Tax rate is as follows:

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Profit before tax	33,300	28,476	28,404
Japan Profits Tax rate	40%	40%	40%
Tax at the domestic income tax rate	13,320	11,390	11,362
Tax effect of income that is not taxable	(343)	(37)	(24)
Tax effect of expenses that are not deductible	238	609	267
Tax effect of temporary differences not recognised	(246)	48	(29)
Tax effect of utilisation of tax losses not previously recognised	—	—	(13)
Tax losses not recognised	48	185	254
Under provision in prior years	15	3	1
Effect of different tax rates of subsidiaries	67	87	84
Effect of change in tax rates	—	—	599
Others	(13)	—	5
Income tax expenses	13,086	12,285	12,506

12. Profit for the year

The Group's profit for the year is stated after charging/(crediting) the following:

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Impairment loss/(reversal of impairment loss) on property, plant and equipment	421	(352)	226
Impairment loss on available-for-sale financial assets	9	9	1
Impairment loss on other long-term assets	59	46	58
Amortisation of intangible assets (included in hall operating expenses)	345	549	495
Auditor's remuneration	23	28	47
Depreciation	11,402	11,462	10,804
Directors' emoluments			
— As Directors	—	—	49
— For management	—	—	—
	—	—	49
Net loss on derivative financial instruments	214	201	12
Fair value loss on investment properties	23	17	21
Net (gain)/loss on financial assets fair value through profit or loss	(16)	99	—
Loss on disposals and write off of property, plant and equipment	207	241	230
Intangible assets written off	3	—	94
Operating lease charges			
— Land and buildings	9,614	10,099	10,249
Staff costs including Directors' emoluments			
— Salaries, bonus and allowances	42,713	45,629	46,540
— Expenses recognised in respect of defined benefit retirement plans	232	251	259
— Contribution to defined contribution retirement plans	413	446	448
	43,358	46,326	47,247

13. Remuneration of directors and five highest paid individuals

(a) Directors' emoluments

The emoluments of each of the Company's director were as follows:

Name of director	Fees	Salaries, allowances and benefits in kind	Retirement benefit contributions scheme	Discretionary bonus	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*
Year ended 31 March 2010					
Mr. Yoji Sato	—	—	—	—	—
Mr. Katsuhide Horiba	—	—	—	—	—
Mr. Ichiro Takano	—	—	—	—	—
Mr. Noriaki Ushijima	—	—	—	—	—
Mr. Noboru Tamura	—	—	—	—	—
Mr. Yukio Yoshida	—	—	—	—	—
Total	—	—	—	—	—

Name of director	Fees	Salaries, allowances and benefits in kind	Retirement benefit contributions scheme	Discretionary bonus	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*
Year ended 31 March 2011					
Mr. Yoji Sato	—	—	—	—	—
Mr. Katsuhide Horiba	—	—	—	—	—
Mr. Ichiro Takano	—	—	—	—	—
Mr. Noriaki Ushijima	—	—	—	—	—
Mr. Noboru Tamura	—	—	—	—	—
Mr. Yukio Yoshida	—	—	—	—	—
Total	—	—	—	—	—

Name of director	Fees	Salaries, allowances and benefits in kind	Retirement benefit contributions scheme	Discretionary bonus	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*
Year ended 31 March 2012					
Mr. Yoji Sato	—	16.8	4.2	3.4	24.4
Mr. Katsuhide Horiba	—	3.0	0.2	—	3.2
Mr. Ichiro Takano	—	3.0	0.2	—	3.2
Mr. Noriaki Ushijima	—	4.5	0.2	—	4.7
Mr. Noboru Tamura	—	7.0	0.9	1.5	9.4
Mr. Yukio Yoshida	—	3.0	0.2	—	3.2
Mr. Mitsutoshi Kato	—	0.4	—	—	0.4
Mr. Thomas Chun Kee Yip	—	0.4	—	—	0.4
Total	—	38.1	5.9	4.9	48.9

Note:

(1) Except Mr. Mitsutoshi Kato and Mr. Thomas Chun Kee Yip, all the above directors were appointed on 20 September 2011.

(2) Mr. Mitsutoshi Kato and Mr. Thomas Chun Kee Yip were appointed on 29 February 2012.

(3) Mr. Noboru Tamura resigned on 29 February 2012.

(4) No emoluments were paid by the Group to the directors during the years ended 31 March 2010 and 2011 as their emoluments were borne by Dynam Holdings and were not charged to the Group throughout the years ended 31 March 2010, 2011. It is not practical to allocate the remuneration for their services to the Group and other entities related to Dynam Holdings.

(5) Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any emoluments during the Relevant Period.

(b) Five highest paid individuals' remuneration

The five highest paid individuals in the Group during the year included Nil, Nil and one director for the years ended 31 March 2010, 2011 and 2012 respectively. Details of the remuneration of the remaining highest paid individuals during the Relevant Period are set out below:

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Salaries and allowances	113	113	88
Discretionary bonus	21	21	14
Retirement benefit contributions scheme	17	16	14
	151	150	116

The number of highest paid individuals whose remuneration fell within the following band is as follows:

	Year ended 31 March		
	2010	2011	2012
HK$Nil to HK$2,000,000 (equivalent to ¥Nil to ¥20,000,000)	—	—	—
HK$2,000,001 to HK$2,500,000 (equivalent to ¥20,000,010 to ¥25,000,000)	3	3	3
HK$2,500,001 to HK$3,000,000 (equivalent to ¥25,000,010 to ¥30,000,000)	—	—	—
HK$3,000,001 to HK$3,500,000 (equivalent to ¥30,000,010 to ¥35,000,000)	1	1	—
HK$3,500,001 to HK$4,000,000 (equivalent to ¥35,000,010 to ¥40,000,000)	—	—	—
HK$4,000,001 to HK$4,500,000 (equivalent to ¥40,000,010 to ¥45,000,000)	—	—	—
HK$4,500,001 to HK$5,000,000 (equivalent to ¥45,000,010 to ¥50,000,000)	1	1	1

No remunerations were paid by the Group to any of the Directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period.

14. Retirement benefit schemes

The Company and all its subsidiaries have lump-sum retirement benefit plans. In addition, the Company and its certain subsidiaries have defined contribution retirement plans and unfunded defined benefit retirement plans. The plans cover all full-time employees and Directors, and provide the benefits based on the length of service.

15. Dividends

During the Relevant Period, the Company and the Company's subsidiaries made the following distributions to its then shareholders.

	Year ended 31 March					
	2010		2011		2012	
Dividends declared and paid/payable to its then shareholders during the Relevant Period by:	**Dividend per share**	**Total dividends**	**Dividend per share**	**Total dividends**	**Dividend per share**	**Total dividends**
	¥	¥ million	¥	¥ million	¥	¥ million
The Company						
— Interim	—	—	—	—	40	1,262
Dynam						
— First interim	50	1,628	30	977	149	4,837(*)
— Second interim	120	3,907	50	1,628	60	1,953
— Final	50	1,628	50	1,628	—	—
Dynam Data Processing						
— Interim	16,100	3	22,600	5	—	—
— Final	—	—	52,700	11	—	—
Dynam Land & Building						
— Interim	28,800	12	—	—	—	—
— Final	—	—	—	—	—	—
Cabin Plaza						
— Interim	214,700	42	22,600	32	—	—
— Final	128,700	25	154,100	31	—	—
		7,245		4,312		8,052

(*) It was settled by the available-for-sale financial assets.

16. Earnings per share

The calculation of basic earnings per share is based on the following:

	Year ended 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Earnings for the purpose of calculating basic earnings per share	20,214	16,191	15,898
Weighted average number of shares before sub-division	31,542,518	31,542,518	31,542,518
Effect of sub-division of shares	599,307,842	599,307,842	599,307,842
Weighted average number of shares for the purpose of calculating basic earnings per share *(note 51)*	630,850,360	630,850,360	630,850,360

No diluted earnings per share was presented for the years ended 31 March 2010 and 2011 as there were no dilutive potential ordinary shares in existence during the years ended 31 March 2010 and 2011.

No diluted earnings per share was presented for the year ended 31 March 2012 as the conversion of the Convertible Bonds would be anti-dilutive for the year ended 31 March 2012.

17. Property, plant and equipment

Group

	Freehold land	Buildings including leasehold improvements	Tools and equipment	Motor vehicles	Construction in progress	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*
Cost						
At 1 April 2009	27,117	104,725	54,867	353	676	187,738
Additions	—	1,958	7,746	43	5,627	15,374
Transfer	—	4,422	—	—	(4,422)	—
Acquisition through business combinations *(note 44(a))*	645	473	31	2	—	1,151
Disposals/write off	—	(239)	(863)	(127)	—	(1,229)
At 31 March 2010 and 1 April 2010	27,762	111,339	61,781	271	1,881	203,034
Additions	225	1,107	4,307	—	1,991	7,630
Transfer	—	3,531	—	—	(3,531)	—
Acquisition through business combinations *(note 44(a))*	236	261	42	—	—	539
Disposals/write off	(8)	(402)	(363)	(68)	—	(841)
At 31 March 2011 and 1 April 2011	28,215	115,836	65,767	203	341	210,362
Additions	4	2,428	4,978	10	578	7,998
Transfer	—	915	—	—	(915)	—
Transfer to investment properties *(note 18)*	(61)	—	—	—	—	(61)
Acquired from Dynam Holdings	200	156	2	—	—	358
Disposals/write off	(4)	(590)	(169)	(92)	—	(855)
At 31 March 2012	28,354	118,745	70,578	121	4	217,802
Accumulated depreciation and impairment						
At 1 April 2009	1,848	50,285	38,634	275	—	91,042
Charge for the year	—	5,870	5,475	57	—	11,402
Impairment loss	140	156	125	—	—	421
Disposals/write off	—	(142)	(753)	(127)	—	(1,022)
At 31 March 2010 and 1 April 2010	1,988	56,169	43,481	205	—	101,843
Charge for the year	—	6,039	5,389	34	—	11,462
Reversal of impairment loss	(322)	(27)	(3)	—	—	(352)
Disposals/write off	—	(316)	(211)	(68)	—	(595)
At 31 March 2011 and 1 April 2011	1,666	61,865	48,656	171	—	112,358
Charge for the year	—	5,560	5,226	18	—	10,804
(Reversal of impairment loss)/impairment loss	(48)	173	101	—	—	226
Disposals/write off	—	(426)	(102)	(91)	—	(619)
At 31 March 2012	1,618	67,172	53,881	98	—	122,769
Carrying amount						
At 31 March 2010	25,774	55,170	18,300	66	1,881	101,191
At 31 March 2011	26,549	53,971	17,111	32	341	98,004
At 31 March 2012	26,736	51,573	16,697	23	4	95,033

Company

	Freehold land	Buildings including leasehold improvements	Tools and equipment	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*
Cost				
Acquired from Dynam Holdings . .	200	156	2	358
Additions	—	1	18	19
At 31 March 2012.	200	157	20	377
Accumulated depreciation and impairment				
Charge for the year and at 31 March 2012	—	2	4	6
Carrying amount				
At 31 March 2012.	200	155	16	371

(a) The lands are situated in Japan and are analysed as follows:

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Freehold	25,774	26,549	26,736	200

(b) The carrying amounts of tools and equipment and motor vehicles held by the Group under finance leases amounted to ¥3,112 million, ¥3,839 million and ¥3,441 million at 31 March 2010, 2011 and 2012 respectively.

(c) At 31 March 2010, 2011 and 2012, the carrying amounts of property, plant and equipment pledged as security for the Group's borrowings amounted to ¥28,413 million, ¥30,736 million and ¥29,020 million respectively.

(d) The Group carried out reviews of the recoverable amount of its property, plant and equipment as at 31 March 2010, 2011 and 2012. Cash-generating unit ("CGU") has been based on individual pachinko hall. The recoverable amount of the CGU is determined from the higher of fair value less costs to sell and value in use.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted revenue margin and gross pay-ins from customers during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on population rate of the geographical area in which the hall operates. Budgeted revenue margin and gross pay-ins from customers are based on past practices and expectations on market development. Whereas, the fair value was valued by [●], an independent firm of real estate appraiser, on cost approach.

The rates used to discount the free cash flow projections from the CGU's operating result are as follows:

	Group		
	At 31 March		
	2010	2011	2012
	%	%	%
Discount rate	9.9	8.8	8.7

(e) As a result of the Great East Japan Earthquake on 11 March 2011, the Group fully wrote off the carrying amount of the property, plant and equipment of the hall that are collapsed during the earthquake. These amounts are accounted for as hall operating expenses under "Others", which includes loss on earthquake.

18. Investment properties

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	¥ million	¥ million
At beginning of year	1,022	999	982
Transfer from property, plant and equipment *(note 17)*	—	—	66
Fair value loss	(23)	(17)	(21)
At end of year	999	982	1,027

The investment properties at their carrying amounts are analysed as follows:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	¥ million	¥ million
In Japan			
Freehold	511	510	574
Medium-term lease	488	472	453
	999	982	1,027

The Group's investment properties were valued at 31 March 2010, 2011 and 2012 on income approach or sales comparison approach by [●].

19. Intangible assets

Group

	Goodwill	Trademarks	Computer software	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*
Cost				
At 1 April 2009	10	5	2,708	2,723
Additions	—	—	1,197	1,197
Write off	—	—	(56)	(56)
At 31 March 2010 and 1 April 2010	10	5	3,849	3,864
Additions	—	—	415	415
Acquisition through business combinations *(note 44(a))*	37	—	—	37
At 31 March 2011 and 1 April 2011	47	5	4,264	4,316
Additions	—	2	390	392
Acquired from Dynam Holdings	—	8	—	8
Write off	—	—	(268)	(268)
At 31 March 2012	47	15	4,386	4,448
Accumulated amortisation				
At 1 April 2009	—	2	1,795	1,797
Amortisation for the year	—	1	344	345
Write off	—	—	(53)	(53)
At 31 March 2010 and 1 April 2010	—	3	2,086	2,089
Amortisation for the year	—	1	548	549
At 31 March 2011 and 1 April 2011	—	4	2,634	2,638
Amortisation for the year	—	1	494	495
Write off	—	—	(174)	(174)
At 31 March 2012	—	5	2,954	2,959
Carrying amount				
At 31 March 2010	10	2	1,763	1,775
At 31 March 2011	47	1	1,630	1,678
At 31 March 2012	47	10	1,432	1,489

Company

	Trademarks
	¥ million
Cost	
Acquired from Dynam Holdings	8
Additions	2
At 31 March 2012	10
Accumulated amortisation	
Amortisation for the year and at 31 March 2012	1
Carrying amount	
At 31 March 2012	9

Goodwill arose on acquisitions of subsidiaries during the Relevant Period. Goodwill is allocated to the Group's CGU identified according to its operation and business as follows:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	***¥ million***	***¥ million***
Trading of pachinko machines	10	10	10
Operation of pachinko halls	—	37	37
	10	47	47

The recoverable amounts of the CGU of operation of pachinko halls are determined from value in use calculations. The calculation uses free cash flow projections based on financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to the cash flow projections as at 31 March 2011 and 2012 are 32.2% and 33.6% respectively.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted revenue margin and gross pay-ins from customers during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on population rate of the geographical area in which the hall operates. Budgeted revenue margin and gross pay-ins from customers are based on past practices and expectations on market development.

20. Interests in subsidiaries

Company

	At 31 March 2012
	¥ million
Unlisted investments, at cost	54,071

(a) At the date of this report, the Company had the following subsidiaries:

Name of subsidiary	Place/date of incorporation/ establishment	Issued and paid up capital (¥)	Percentage of ownership interest/ voting power/profit sharing			Principal activities
			At 31 March			
			2010	2011	2012	
Dynam	Japan 25 July 1967	5,000,000,000	100%	100%	100%	Operation of pachinko halls
Cabin Plaza *(Note 1)*	Japan 25 May 1988	10,000,000	100%	100%	100%	Operation of pachinko halls
Daikokuten *(Note 2)*	Japan 12 March 1977	95,000,000	100%	100%	100%	Operation of pachinko halls
Okuwa Japan *(Note 3)*	Japan 3 July 1996	200,000,000	—	100%	100%	Operation of pachinko halls
Dynam Land & Building	Japan 31 October 2003	1,020,000,000	100%	100%	100%	Real estate and property management
Dynam Data Processing	Japan 31 October 2003	10,000,000	100%	100%	100%	Provision of accounting and administrative services
Dynam P Trading	Japan 1 July 2010	30,000,000	—	100%	100%	Trading and sourcing of pachinko machines
Dynam Advertisement	Japan 1 July 2010	30,000,000	—	100%	100%	Provision of advertising and marketing services
Kanto Daido *(Note 4)*	Japan 22 January 1992	50,000,000	100%	100%	100%	Trading of pachinko machines
Shinrainomori	Japan 3 December 2008	10,000,000	100%	100%	100%	Franchise chain operation
Shinrainomori Association *(note 5)*	Japan 3 December 2008	—	100%	100%	100%	Supporting arm of a franchise chain under Shinrainomori to undertake non-profit brand-building activities

(1) This subsidiary was acquired on 1 April 2009.
(2) This subsidiary was acquired on 1 December 2009.
(3) This subsidiary was acquired on 1 June 2010.
(4) This subsidiary was acquired on 1 July 2008 and is indirectly held by the Group.
(5) Shinrainomori Association is a general incorporated association organised under the GIA/GIF Law in Japan. Under the GIA/GIF Law, there is no concept of shareholding nor equity interest in a general incorporated association.

(b) Amounts due from subsidiaries are unsecured, interest bearing at a fixed interest rate of 3% per annum and expose the Company to fair value interest rate risk.

The amounts due from subsidiaries recognised under non-current assets are repayable by instalments and lump sum settlement at the specific dates. While, the amounts due from subsidiaries recognised under current assets have no fixed term of repayments.

(c) Included in the amounts due to subsidiaries was an amount of ¥1,700 million which is arranged at a fixed interest rate of 2% per annum and expose the Company to fair value interest rate and is repayable on 28 September 2012. The remaining balance is arranged at floating rates of one month TIBOR, thus exposing the Company to cash flow interest rate risk and has no fixed term of repayment.

(d) Amount due to a subsidiary is unsecured, interest bearing at a fixed interest rate of 2.9% per annum and expose the Company to fair value interest rate risk and is repayable on 31 March 2015 and 30 September 2020 respectively.

21. Available-for-sale financial assets

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Equity securities at fair value, listed in Japan	151	424	414
Equity securities at cost, unlisted	4,933	4,927	90
Club membership at cost	9	6	5
	5,093	5,357	509

The fair values of listed securities are based on current bid prices. Unlisted equity securities were carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

22. Financial assets at fair value through profit or loss

The unlisted convertible bonds are measured at fair values which are determined with reference to the valuation performed by Censere Holdings Limited ("Censere"), an independent qualified professional valuer. The valuation was carried out by adopting Monte Carlo Simulation.

23. Held-to-maturity investment

Held-to-maturity investment comprises national bond issued by Japan government, carries fixed interest rate at 1% per annum, payable bi-annually and will mature in June 2013.

24. Other long-term assets

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Pre-paid rental expenses	6,177	5,794	5,081	—
Pre-paid insurance expenses	130	70	8	4
Pre-paid lender commitment fee	319	297	228	—
Rental deposits	4,925	5,022	5,061	—
Others	199	243	280	—
	11,750	11,426	10,658	4

At 31 March 2010, 2011 and 2012, the carrying amounts of other long-term assets pledged as security for the Group's borrowings amounted to ¥626 million, ¥535 million and ¥491 million respectively.

25. Inventories

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
G-prize	3,339	3,128	2,276
General prize	1,181	1,029	1,093
Supplies	1,461	590	1,162
	5,981	4,747	4,531

26. Trade receivables

The Group's trade receivables relate to commission income from vending machines. During the Relevant Period, the credit terms generally range to 30 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

The Group's aging analysis of trade receivables, based on invoice date, is as follows:

	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
0 to 30 days	374	352	381

No balances were past due during the Relevant Period.

27. Prepayments, deposits and other receivables

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Prepayments				
Lender commitment fee	319	153	226	—
Insurance	82	79	81	—
[●] expenses	—	—	533	533
Rental	1,604	1,697	1,817	—
Staff costs	88	44	51	—
Withholding tax receivables	—	—	423	423
Others	472	161	177	2
	2,565	2,134	3,308	958
Deposit	179	—	—	—
Other receivables				
Consumption tax refundable	187	75	53	—
G-prize refundable	—	112	—	—
Income tax refundable	17	—	54	—
	204	187	107	—
	2,948	2,321	3,415	958

At 31 March 2010, 2011 and 2012, the carrying amounts of prepayments, deposit and other receivables pledged as security for the Group's borrowings amounted to ¥35 million, ¥35 million and ¥35 million respectively.

28. Amounts due from related companies

Amounts due from related companies as disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

(a) Current portion

	Group			Company
	At 31 March			At 31 March
Name	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
株式会社ビジネスパートナーズ Business Partners Co., Ltd.* ("Business Partners")	—	2	2	—
Dynam Holdings	311	8,947	4	—
株式会社ダイナム綜合投資 Dynam Investment Co., Ltd.* ("Dynam Investment")	1	1	1	—
株式会社日本ヒュウマップ Humap Japan Co., Ltd.* ("Humap")	12	12	6	—
株式会社パチソコリース Pachinko Leasing Co., Ltd.* ("Pachinko Leasing")	34	2	1	—
株式会社ピー商品企画 P Brand Planning Co., Ltd.* ("P Brand Planning")	136	—	—	—
株式会社TRUSTY POWER TRUSTY POWER Co., Ltd.* ("Trusty Power")	23	34	—	—
株式会社X-GOLF JAPAN X-GOLF JAPAN Co., Ltd.* ("X Golf")	—	—	6	2
	517	8,998	20	2

(i) The maximum balances outstanding for the amounts due from related companies during the Relevant Period were as follows:

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Business Partners	—	2	5	—
Dynam Holdings	1,620	12,352	11,747	15
Dynam Investment	1	63	2	—
Humap	17	14	12	—
Pachinko Leasing	165	87	4	—
P Brand Planning	166	136	—	—
Trusty Power	45	60	86	—
X Golf	—	—	13	2
株式会社チンギスハーン旅行 Genghis Khan Travel Co., Ltd.* ("Genghis Khan Travel")	—	63	1	1
株式会社ピーインシュアランス P Insurance Co., Ltd.* ("P Insurance")	—	63	—	—

(ii) Included in the amounts due from related companies are amounts which are non-trade in nature, unsecured, interest bearing and have a specific terms of repayment as follows:

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Dynam Holdings	300	8,927	—	—
P Brand Planning	133	—	—	—
	433	8,927	—	—

The interest rates were as follows:

	Interest rate
At 31 March 2010	1 month TIBOR plus 1% to 1 month TIBOR plus 2% per annum
At 31 March 2011	1 month TIBOR plus 1% to 1 month TIBOR plus 2% per annum

(iii) The remaining portion of the amounts due from related companies of the Group is trade in nature.

(b) Non-current portion:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Dynam Holdings	—	2,800	—

(i) Maximum amount outstanding during the year ended 31 March 2010, 2011 and 2012 was ¥200 million, ¥2,800 million and ¥2,800 million respectively.

(ii) The amount due from a related company as at 31 March 2011 is non-trade in nature, unsecured, interest bearing at a fixed rate of 2.9% per annum and has to repay after one year.

(c) Except Mr. Mitsutoshi Kato and Mr. Thomas Chun Kee Yip, all directors are interested in the above transactions to the extent that they are beneficial shareholders of Dynam Holdings.

(d) The amounts due from related companies under non-trade in nature of ¥433 million, ¥8,927 million and ¥Nil million are arranged at floating interest rates per annum and expose the Group to cash flow interest rate risk at 31 March 2010, 2011 and 2012 respectively. The remaining amounts due from related companies under non-trade in nature are arranged at fixed rates thus exposing the Group to fair value interest rate risk.

The amounts due from related companies under trade in nature are interest free, unsecured and aged within 30 days.

29. Fixed bank deposits

Fixed bank deposits consist of the time deposits which mature over three months.

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
3–12 months	687	888	—
Over 1 year	597	355	—
	1,284	1,243	—

30. Bank and cash balances

The bank and cash balances are as follows:

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Cash on hand	5,093	5,239	6,835	1
Cash at bank	18,278	13,464	21,689	2,166
Total cash and deposits	23,371	18,703	28,524	2,167
Less: Fixed bank deposits (*note (29)*)	(1,284)	(1,243)	—	—
Cash and cash equivalents	22,087	17,460	28,524	2,167

Fixed bank deposits carry interest at market rates per annum at 31 March 2010, 2011 and 2012 are as follows:

	Group		
	At 31 March		
	2010	2011	2012
	%	*%*	*%*
Fixed bank deposits	0.012–0.40	0.012–0.15	N/A

31. Trade payables

The aging analysis of the Group's trade payables, based on invoice date, is as follows:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
0 to 30 days	1,459	1,232	1,148

32. Accruals and other payables

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Accrued interest expenses	103	48	8	—
Accrued staff costs	6,391	6,628	7,598	53
Advertisement and promotion payables	450	349	512	—
Unutilised balls and tokens	3,792	4,173	4,198	—
Halls construction and system payables	2,473	2,367	2,669	—
Other tax expenses (*)	2,372	1,056	1,816	—
Pachinko and pachislot machines payables	3,199	2,495	3,745	—
Rental receipt in advance	68	69	73	—
Others	481	415	471	70
	19,329	17,600	21,090	123

(*) It represents consumption tax payable, assets acquisition tax payable, business office tax payable and withholding tax payable.

33. Derivative financial instruments

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Interest rate swap contracts, at fair value	506	381	196
Less: current portion	(272)	(200)	(62)
Non-current portion	234	181	134

The Group entered into interest rate swap contracts to mitigate exposure associated with fluctuations relating to interest cash flows. The underlining currency of interest rate swap contracts is denominated in Japanese yen. At 31 March 2010, 2011 and 2012, the total notional amount of the outstanding interest rate swap contracts to which the Group are committed is as follows:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Interest rate swap contracts	30,534	20,297	6,121

The fair values of the interest rate swap contracts as at 31 March 2010 and 31 March 2011 are based on the valuation performed by Censere and the fair value as at 31 March 2012 is based on the valuation performed by AVISTA Valuation Advisory Limited ("Avista"), an independent qualified professional valuer. The methodology adopted is Discounted Cash Flow Method using the applicable yield curve for the duration of the interest rate swap contracts.

34. Amounts due to related companies

(a) Current portion:

	Group		
	At 31 March		
Name	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Business Partners	—	—	4
Dynam Holdings	450	174	2
Dynam Investment	139	—	1
Genghis Khan Travel	27	5	8
Humap	1,042	578	428
Pachinko Leasing	521	59	—
P Brand Planning	133	—	—
Trusty Power	201	80	—
	2,513	896	443

(i) Included in the amounts due to related companies are amounts which are non-trade in nature, unsecured, interest bearing and have a specific terms of repayment as follows:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Dynam Holdings	436	167	—
Dynam Investment	132	—	—
Genghis Khan Travel	10	—	—
Humap	375	—	—
Pachinko Leasing	474	50	—
P Brand Planning	71	—	—
Trusty Power	109	—	—
	1,607	217	—

The interest rates as at 31 March 2010 and 2011 are as follows:

	Interest rate
At 31 March 2010	1 month TIBOR to 1 month TIBOR plus 1.5% per annum
At 31 March 2011	1 month TIBOR to 1 month TIBOR plus 1.5% per annum

(ii) The remaining current portion of the amounts due to related companies of the Group is trade in nature.

(b) Non-current portion:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Dynam Holdings	2,900	5,580	—

The amount due to a related company is non-trade in nature and has the following terms:

	Term	Interest rate
At 31 March 2010	Unsecured, repayable by instalments (commencing from 30 June 2011 to 31 March 2021)	Fixed rate at 3% per annum
At 31 March 2011	Unsecured, repayable by instalments (commencing from 30 June 2012 to 30 December 2014)(*)	Fixed rate at 3% per annum

(*) This amount was early repaid in September 2011.

(c) Except Mr. Mitsutoshi Kato and Mr. Thomas Chun Kee Yip, all directors are interested in the above transactions to the extent that they are beneficial shareholders of Dynam Holdings.

(d) The amounts due to related companies under non-trade in nature of ¥1,607 million, ¥217 million and ¥Nil million are arranged at floating interest rates per annum and expose the Group to cash flow interest rate risk at 31 March 2010, 2011 and 2012 respectively. The remaining amounts due to related companies under non-trade in nature are arranged at fixed rates, thus exposing the Group to fair value interest rate risk.

The amounts due to related companies under trade in nature are interest free, unsecured and aged within 30 days.

35. Borrowings

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Bank loans	7,761	4,893	19,772
Syndicated loans	43,767	33,124	3,465
Bonds	2,741	—	—
	54,269	38,017	23,237
Represented by:			
Secured	25,252	38,006	15,331
Unsecured	29,017	11	7,906
	54,269	38,017	23,237
The borrowings are repayable as follows:			
On demand or within one year	26,335	15,439	1,654
In the second year	13,378	10,858	17,258
In the third to fifth years, inclusive	13,147	9,661	3,275
After five years	1,409	2,059	1,050
	54,269	38,017	23,237
Less: Amount due for settlement within 12 months (shown under current liabilities)	(26,335)	(15,439)	(1,654)
Amount due for settlement after 12 months	27,934	22,578	21,583

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

	Group		
	At 31 March		
	2010	2011	2012
	%	%	%
Bank loans	2.1	2.2	1.3
Syndicated loans	1.9	1.9	1.9
Bonds	1.8	—	—

(b) At the end of each reporting period, the borrowings were secured by the following:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	¥ million	¥ million
Property, plant and equipment	28,413	30,736	29,020
Other long-term assets	626	535	491
Prepayments, deposits and other receivables	35	35	35
	29,074	31,306	29,546

Corporate guarantees given by Dynam Holdings at 31 March 2010, 2011 and 2012 for the Group's borrowings were ¥4,798 million, ¥38,006 million and ¥Nil respectively.

(c) The Group's borrowings of ¥1,600 million, ¥2,662 million and ¥1,934 million are arranged at fixed interest rates per annum as below and expose the Group to fair value interest rate risk at 31 March 2010, 2011 and 2012 respectively. The remaining portion of Group's borrowings is arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

	Group		
	At 31 March		
	2010	2011	2012
	%	%	%
Borrowings	1.7–2.7	2.0–2.7	2.0–2.7

(d) During the Relevant Period, the principal amounts of bonds issued by the Group carried the fixed interest rates per annum are as follows:

Issue date	Principal amount	Interest rate	Due date
	¥ million	%	
June 2003	1,000	1.40	June 2010
May 2004	1,000	2.00	May 2009
March 2006	1,000	2.18	March 2011
August 2006	2,000	1.93	August 2011(*)

(*) This bond was early repaid in April 2010.

36. Convertible bonds

On 22 November 2011, the Company entered into convertible bonds agreements (the "Convertible Bond Agreements") with seven independent investors (the "Bondholders") in respect of the issue of US$65 million convertible bonds (the "Convertible Bonds"). The maturity date of the Convertible Bonds is 21 November 2012. The Convertible Bonds bear interest from the date of issue at the rate of 1% per annum and is payable in arrears on the maturity date.

Subject to the completion of the [●] under the Convertible Bond Agreements and the exercise of conversion right by the Bondholders, the Company should allot and issue to the Bondholders an ordinary share which is based on the conversion price to determine. The conversion price of the Convertible Bonds shall be the higher of (i) 75% of the [●] and (ii) fixed at ¥3,000 per ordinary share (subject to sub-division or adjustment as agreed between the Company and the Bondholders from time to time pursuant to the terms of the Convertible Bond Agreements).

	Group and Company					
		Derivative components				
	Liability component	Conversion option	Redemption option	Foreign exchange option	Sub-total	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*
Proceeds from issuance of Convertible Bonds. .	4,920	752	(673)	—	79	4,999
Effective interest charged for the year.	39	—	—	—	—	39
Change in fair value	—	156	(206)	(12)	(62)	(62)
Exchange alignment	352	—	—	—	—	352
Redemption of Convertible Bonds.	(5,368)	—	—	—	—	(5,368)
Loss on redemption of Convertible Bonds	57	(908)	879	12	(17)	40
At 31 March 2012.	—	—	—	—	—	—

On 1 March 2012, the Company issued a notice to each of the Convertible Bonds holders to fully redeem the Convertible Bonds at a price equivalent to the principal amounts of the Convertible Bonds together with interest accrued thereon, in accordance with the terms of the Convertible Bonds. The redemption of the Convertible Bonds was completed on 12 March 2012.

The interest charged for the year is calculated by applying an effective interest rate of 2.4% per annum to the liability component for the 3.7 month period since the bonds were issued and up to the date of redemption.

The derivative components are measured at its fair value at the dates of issue and redemption based on the valuation performed by Avista. The fair values are estimated using Binomial Model and the key assumptions used are as follows:

	Date of redemption	Date of issue
Share price at fair value	¥3,818	¥3,286
Conversion price	HK$364	HK$364
Expected volatility	60.49%	55.68%
Expected life	0.7 year	1 year
Risk free rate.	0.12%	0.16%
Expected dividend yield	4.22%	4.9%

37. Finance lease payables

Group

	Minimum lease payments			Present value of minimum payments		
	At 31 March			At 31 March		
	2010	2011	2012	2010	2011	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*
Within one year	2,119	1,529	1,302	1,932	1,373	1,187
In the second to fifth years, inclusive	3,508	3,251	2,430	3,277	3,074	2,331
	5,627	4,780	3,732	5,209	4,447	3,518
Less: Future finance charges	(418)	(333)	(214)	—	—	—
Present value of lease obligations	5,209	4,447	3,518	5,209	4,447	3,518
Less: Amount due for settlement within 12 months (shown under current liabilities)				(1,932)	(1,373)	(1,187)
Amount due for settlement after 12 months				3,277	3,074	2,331

It is the Group's policy to lease certain of its tools and equipment and motor vehicles under finance leases. The average lease term is 5 years. The average effective borrowing rates per annum at 31 March 2010, 2011 and 2012 were 3.8%, 3.9% and 3.6% respectively. All finance lease payables are arranged at fixed rates thus expose the Group to fair value interest rate risk and no arrangements have been entered into for contingent rental payments.

38. Retirement benefit obligations

The Group's and the Company's defined benefit retirement plans are the unfunded pension plans for full-time employees and Directors upon retirement.

(a) Movements in the liability recognised in the combined statements of financial position are as follows:

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
At beginning of year	1,365	1,502	1,462	—
Acquired from Dynam Holdings	—	—	6	6
Current service cost	202	217	211	7
Interest cost	30	34	48	—
Benefit paid	(56)	(70)	(117)	(1)
Actuarial (gains)/losses	(54)	(222)	194	(1)
Business combinations *(note 44(a))*	15	1	—	—
At end of year	1,502	1,462	1,804	11

(b) The defined benefit retirement plans of the Group and the Company are measured at present value which are determined with reference to the valuation performed by Asuku Actuarial Office Inc., an independent qualified professional valuer. The valuation was carried out by projected unit credit method.

(c) Expense recognised in profit or loss is as follows:

	Group			Company
	Year ended 31 March			Year ended 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Current service cost	202	217	211	7
Interest cost	30	34	48	—
	232	251	259	7

(d) Item recognised in other comprehensive income is as follows:

	Group			Company
	Year ended 31 March			Year ended 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Actuarial (gains)/losses recognised	(54)	(222)	194	(1)

(e) The principal actuarial assumptions adopted at each of the reporting period are as follows:

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	%	*%*	*%*	*%*
Discount rate	2.2578	3.2589	2.0750	2.0750
Future salary increases	2.7200	2.6600	2.4600	2.4600

39. Deferred tax assets/(liabilities)

Group

	Property, plant and equipment	Staff cost	Unutilised balls and tokens	Pre-paid rent	Pachinko and pachislot machines	Investment properties	Others	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*	*¥ million*
At 1 April 2009	3,206	2,379	1,188	827	5,772	210	2,120	15,702
Business combination *(note 44(a))*	71	—	—	—	68	—	50	189
Credit/(charge) to equity for the year	—	(22)	—	—	—	—	(1)	(23)
Credit/(charge) to profit or loss for the year *(note 11)*								
— origination and reversal of temporary differences	(4,192)	182	291	123	513	(65)	(148)	(3,296)
At 31 March 2010 and 1 April 2010	(915)	2,539	1,479	950	6,353	145	2,021	12,572
Credit/(charge) to equity for the year	—	(89)	—	—	—	—	12	(77)
Credit/(charge) to profit or loss for the year *(note 11)*								
— origination and reversal of temporary differences	(952)	179	124	115	714	(23)	(1,103)	(946)
At 31 March 2011 and 1 April 2011	(1,867)	2,629	1,603	1,065	7,067	122	930	11,549
Credit/(charge) to equity for the year	—	82	—	—	—	(2)	3	83
Credit/(charge) to profit or loss for the year *(note 11)*								
— origination and reversal of temporary differences	(47)	152	18	173	(458)	8	(15)	(169)
— effect of change in tax rate	258	(198)	(81)	(157)	(334)	(16)	(71)	(599)
At 31 March 2012	(1,656)	2,665	1,540	1,081	6,275	112	847	10,864

Company

	Others
	¥ million
Credit/(charge) to profit or loss for the year	
— origination and reversal of temporary differences	(242)
— effect of change in tax rate	5
At 31 March 2012	(237)

The following is the analysis of the deferred tax balances (after offset) for combined statements of financial position purposes:

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Deferred tax assets	13,487	13,416	12,520	—
Deferred tax liabilities	(915)	(1,867)	(1,656)	(237)
	12,572	11,549	10,864	(237)

At 31 March 2010, 2011 and 2012 the Group has unused tax losses of ¥180 million, ¥763 million and ¥1,366 million from some of its subsidiaries available for offset against future profits in these subsidiaries respectively. No deferred tax asset in relation to unused tax losses has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of ¥180 million, ¥763 million and ¥1,366 million that will expire during the year from 2018 to 2021 respectively.

40. Other long-term liabilities

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Rental deposits received	124	139	146
Rental receipt in advance	247	208	192
	371	347	338

41. Provisions

Group

	Asset retirement obligation (note a)	Staff vacation payable (note b)	Total
	¥ million	*¥ million*	*¥ million*
At 1 April 2009	2,767	1,192	3,959
Addition provisions	233	104	337
Addition through business combinations *(note 44(a))*	1	13	14
Changes in present value	63	—	63
At 31 March 2010 and 1 April 2010	3,064	1,309	4,373
Addition provisions	182	7	189
Addition through business combinations *(note 44(a))*	—	2	2
Changes in present value	69	—	69
At 31 March 2011 and 1 April 2011	3,315	1,318	4,633
Addition provisions	28	142	170
Changes in present value	70	—	70
At 31 March 2012	3,413	1,460	4,873

Company

Provisions and at 31 March 2012	—	4	4

Analysed as:

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Current liabilities	1,309	1,318	1,460	4
Non-current liabilities	3,064	3,315	3,413	—
	4,373	4,633	4,873	4

(a) The asset retirement obligation represents the estimated costs arising from contractual obligations to a landlord to dismantle and remove leasehold improvements and certain fixed assets at the end of the lease contracts.

(b) Staff vacation payable represents leave entitlements of employees.

42. Share capital

For the purpose of the Financial Information, the capital in the combined statements of financial position at 31 March 2010 and 2011 represented the aggregate amount of ¥5,540 million and ¥6,100 million respectively of paid-up capital of Dynam, Dynam Land & Building, Dynam Data Processing, Dynam P Trading, Dynam Advertisement and Shinrainomori.

The Company was incorporated in Japan on 20 September 2011. At the date of incorporation, 31,542,518 shares of the Company with the fully paid amount of ¥5,000 million were issued to Dynam Holdings as initial capital of the Company for the acquisition of the entire interest and control of the Main Group and Operating Assets and Liabilities. Consequently, the issued share capital as at 20 September 2011 represented the issued share capital of the Company as at 31 March 2012.

The numbers of the Company's shares authorised and issued as of 31 March 2012 are as follows:

	Number of shares	*¥ million*
Authorised:		
Ordinary shares	126,000,000	—
Issued and fully paid:		
Issued during the year and at 31 March 2012	31,542,518	5,000

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged during the Relevant Period.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising paid-in capital and accumulated profits.

The management reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through arrangement of borrowings, payment of dividends and new shares issued.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

43. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the combined statements of comprehensive income and combined statements of changes in equity.

(b) Nature and purpose of reserves

(i) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 4(l)(iii) to the Financial Information.

(ii) Capital reserve

Capital reserve represents the difference between the cost of investment and share capital in an acquired subsidiary under common control and the cost of investment in other acquired subsidiaries.

(iii) Capital surplus

Under the Company Law of Japan (the "Japan Company Law"), certain percentage of the proceeds from the issuance of share capital shall be credited to the share capital and the remaining of the proceeds shall be credited to additional paid-in capital. Upon approval of the general meeting of shareholders, the additional paid-in capital would be transferred back to the share capital.

(iv) Legal reserve

The Japan Company Law provides that a 10% dividend of retained earnings shall be appropriated as legal reserve (a component of either capital surplus or retained earnings) until an aggregate amount of additional paid-in capital and legal reserve equals 25% of share capital. The legal reserve may be used to reduce a deficit or transfer to retained earnings upon approval of the general meeting of shareholders.

(v) Other capital surplus

Other capital surplus arising from the Reorganisation under company split on 20 September 2011, it represents the difference between the amount of net assets acquired on 20 September 2011 from Dynam Holdings and the amount of the share capital and of the additional paid-in-capital upon the formation of the Company. Under the Japan Company Law, upon approval of the general meeting of shareholders, the other capital surplus may be used to dividend distribution.

(vi) Other reserves

Other reserves included the actuarial gains/(losses) of defined benefit retirement plans and revaluation gain on freehold land upon reclassification from property, plant and equipment to investment properties.

44. Notes to the combined statements of cash flows

(a) Business combinations (other than common control)

On 1 April 2009 the Group acquired 100% of the issued share capital of Cabin Plaza for a consideration of ¥1,000 million. Cabin Plaza is engaged in the operation of pachinko halls during the Relevant Period.

The fair value of the identifiable assets and liabilities of Cabin Plaza acquired as at its date of acquisition are as follows:

	¥ million
Net assets acquired:	
Property, plant and equipment	619
Available-for-sale financial assets	32
Deferred tax assets	189
Other long-term assets	162
Inventories	71
Prepayments, deposits and other receivables	27
Cash and cash equivalents	921
Trade payables	(4)
Accruals and other payables	(543)
Provisions	(7)
Retirement benefit obligations	(15)
	1,452
Gain on bargain purchase	(452)
Consideration	1,000
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	921

This acquisition increased the Group's revenue and profit by ¥1,374 million and ¥495 million respectively for the year ended 31 March 2010.

On 1 December 2009 the Group acquired 100% of the issued share capital of Daikokuten for a consideration of ¥350 million. Daikokuten is engaged in the operation of pachinko halls during the Relevant Period.

The fair value of the identifiable assets and liabilities of Daikokuten acquired as at its date of acquisition are as follows:

	¥ million
Net assets acquired:	
Property, plant and equipment	532
Other long-term assets	147
Inventories	5
Prepayments, deposits and other receivables	23
Cash and cash equivalents	23
Trade payables	(6)
Accruals and other payables	(53)
Provisions	(7)
	664
Gain on bargain purchase	(314)
Consideration	350
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	23

This acquisition increased the Group's revenue and decreased the Group's profit by ¥64 million and ¥352 million respectively for the year ended 31 March 2010.

On 1 June 2010 the Group acquired 100% of the issued share capital of Okuwa Japan for a consideration of ¥30 million. Okuwa Japan is engaged in the operation of pachinko halls during the Relevant Period.

The fair value of the identifiable assets and liabilities of Okuwa Japan acquired as at its date of acquisition are as follows:

	¥ million
Net liabilities acquired:	
Property, plant and equipment	539
Available-for-sale financial assets	6
Other long-term assets	9
Inventories	24
Prepayments, deposits and other receivables	28
Cash and cash equivalents	279
Trade payables	(64)
Accruals and other payables	(80)
Amount due to related companies	(438)
Borrowings	(307)
Provisions	(2)
Retirement benefit obligations	(1)
	(7)
Goodwill	37
Consideration	30
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	279

The goodwill arising on the acquisition of Okuwa Japan is attributable to the anticipated profitability of its operations of the operation of pachinko halls and the anticipated future operating synergies from the combination.

This acquisition increased the Group's revenue and decreased the Group's profit by ¥369 million and ¥479 million respectively for the year ended 31 March 2011.

(b) Material non-cash transactions

Additions to property, plant and equipment of ¥4,008 million, ¥1,296 million and ¥499 million for the years ended 31 March 2010, 2011 and 2012 respectively were financed by finance leases.

45. Financial guarantee liabilities

At the end of each reporting year, the Group and the Company have made guarantees as follows:

	Group			Company
	At 31 March			At 31 March
	2010	2011	2012	2012
	¥ million	*¥ million*	*¥ million*	*¥ million*
Dynam	—	—	—	27,850
Dynam Land & Building	—	—	—	8,000
Genghis Khan Travel	17	17	—	—
	17	17	—	35,850

At the end of each reporting period, the directors do not consider it probable that a claim will be made against the Group under any of the above guarantees. As at 31 March 2010, 2011 and 2012, the maximum liability of the Group at the end of each reporting period under guarantee is ¥10 million, ¥7 million and ¥Nil million respectively.

The fair value of the guarantee to Genghis Khan Travel at date of inception is not material and is not recognised in the financial statements. The fair value of the guarantee to Dynam and Dynam Land & Building is material and is recognised in the financial statements of the Company.

46. Contingent liabilities

At 31 March 2010, 2011 and 2012, the Group did not have any significant contingent liabilities.

As at 31 March 2012, the maximum contingent liability of the Company at the end of reporting period under financial guarantees is ¥23,335 million. The Company did not have any other significant contingent liabilities.

47. Capital commitments

The capital commitments at the end of the reporting period are as follows:

	Group		
	At 31 March		
	2010	*2011*	*2012*
	¥ million	*¥ million*	*¥ million*
Contracted but not provided for	3,532	883	218
Approved but not contracted for	—	—	260
	3,532	883	478

48. Lease commitments

(i) Lessee

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Within one year	1,631	1,628	1,550
In the second to fifth years, inclusive	5,600	4,513	3,166
Over five years	997	456	248
	8,228	6,597	4,964

The Group leases certain land and buildings under operating leases. The leases typically run for an initial average period of 20 years. The Group has the option to cancel the leases on payment of a penalty at various stages of the initial lease periods depending on the terms of the specific leases concerned.

(ii) Lessor

The total future minimum lease payments under non-cancellable operating leases of property, plant and equipment and investment properties are receivables as follows:

	Group		
	At 31 March		
	2010	2011	2012
	¥ million	*¥ million*	*¥ million*
Within one year	146	159	166
In the second to fifth years inclusive	584	634	657
After five years	1,171	1,149	1,037
	1,901	1,942	1,860

49. Related party transactions

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

Related company	Type of transactions	Year ended 31 March 2010	2011	2012
		¥ million	*¥ million*	*¥ million*
Dynam Holdings	Accounting service income	11	27	20
	Dividend income	210	210	105
	Dividend paid	7,245	4,312	6,790
	Interest expense	8	149	81
	Interest income	34	72	46
	Management fee expense	457	514	281
	Messing and staff welfare expenses	▲	1	3
	Miscellaneous income	▲	▲	2
	System usage income	5	6	4
一般財団法人ワンアジア財団 One Asia Foundation* *(note ii)*	Donation	3	—	—
Trusty Power	Accounting service income	3	4	2
	Miscellaneous income	8	10	15
	Recruitment and training expenses	863	756	511
	System usage income	7	18	6
Genghis Khan Travel	Accounting service income	3	3	3
	Messing and staff welfare expenses	—	81	83
	Recruitment and training expenses	13	5	11
	System usage income	2	2	1
	Travel agency charges	4	7	5
Pachinko Leasing	Accounting service income	4	3	3
	Interest expense	4	1	1
	Purchase of pachinko and pachislot machines	—	—	76
	Pachinko machine handling cost	—	108	—
	Rental expense	756	—	—
	Sales of pachinko and pachislot machines	14	52	9
	System usage income	26	7	1
	Others	2	2	4
P Insurance	Accounting service income	3	3	3
	System usage income	—	1	1
P Brand Planning	Accounting service income	3	1	—
	Design fee	55	36	—
	Interest income	1	▲	—
	System usage income	2	1	—

Related company	Type of transactions	Year ended 31 March 2010	2011	2012
		¥ million	*¥ million*	*¥ million*
Humap	Accounting service income	45	44	30
	Hall cleaning and ancillary services	4,595	4,207	4,254
	Interest expense	4	—	—
	Messing and staff welfare expenses	5	5	3
	Miscellaneous income	24	26	26
	Office cleaning and ancillary services	1	1	—
	Rental income	151	161	165
	Repair fee	2	10	20
	Royalty from coffee wagon license	30	28	27
	Royalty from vending machine license	1	10	26
	Staff cafeteria services	90	51	54
	Supply of general prize	788	602	518
	System usage income	39	37	33
	Utilities charges	130	138	141
Dynam Investment	Accounting service income	6	5	4
	Miscellaneous income	1	1	1
	Rental income	8	8	8
	Rental expense	93	104	116
	System usage income	2	2	1
	Others	5	5	6
Business Partners	Office cleaning and ancillary services	—	▲	9
	Rental income	—	1	5
	System usage income	—	—	1
	Training fee	—	—	30
X-Golf	Advertisement income	—	—	21
	Fees (including rental charges, property management fee and utilities)	—	—	6
	System usage	—	—	1

(i) Mr. Yoji Sato is interested in this transaction to the extent he is a founder of One Asia Foundation.

(ii) Except Mr. Mitsutoshi Kato and Mr. Thomas Chun Kee Yip, all directors are interested in the above transactions, excluding the transaction with One Asia Foundation, to the extent they are beneficial shareholders of Dynam Holdings.

▲ Less than 0.5

50. Subsequent financial statements

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2012.

51. Event after the reporting period

Pursuant to the resolutions of the board of the Directors dated 5 June 2012, the Directors approved: (i) the increase of the number of shares authorised to be issued by the Company from 126,000,000 shares to 2,520,000,000 shares; and (ii) the sub-division of every issued share of nil par value in the share capital into 20 shares of nil par value, such that the issued share capital of the Company increased from 31,542,518 shares to 630,850,360 shares. The sub-division took effect on 21 June 2012.

Yours faithfully,
[●]
Certified Public Accountants
Hong Kong

This Appendix sets out a summary of certain provisions of the Articles of Incorporation of our Company. As the information contained below is in summary form, it does not contain all the information that may be important to you.

Our Company was incorporated with limited liability in Japan as a stock company (*kabushiki-gaisha* 株式会社) on 20 September 2011. Our Articles of Incorporation comprise our Company's constitution. The liabilities of shareholder(s) of a stock company are generally limited to the extent of their investment in a company. The provisions normally set out in the memorandum and articles of association of a Hong Kong incorporated company are generally speaking either contained in a Japanese company's articles of incorporation or stipulated in the Companies Act.

1. ARTICLES OF INCORPORATION

The Articles of Incorporation of our Company were adopted on 20 September 2011. A revised version of our Articles of Incorporation was adopted by our Shareholders on 20 June 2012 and will take effect on [●]. The following is a summary of certain key provisions of our Articles of Incorporation that will take effect [●].

(a) Purposes

The Articles of Incorporation of our Company set out detailed and extensive, though non-exhaustive, lists of purposes for which our Company was formed. Our Articles of Incorporation also allow our Company to undertake any business activities that are not explicitly stated in the Articles of Incorporation.

(b) Directors

(i) Power to allot and issue Shares

Under our Articles of Incorporation, the number of Shares authorised to be issued by our Company is 2,520,000,000 Shares.

Shares may be issued and allotted to any party by ordinary resolution of the Shareholders, except that, in the circumstances where an issue or allotment of the Shares to a third party is proposed on terms and conditions *especially favourable* to such third party, a special resolution of the Shareholders will be required under the Companies Act. Under our Articles of Incorporation, our Board of Directors may be entrusted with the power to issue and allot Shares by way of a general mandate granted by our Shareholders via an ordinary resolution.

As advised by our Japan Legal Adviser, there is no clear definition under Japanese law of the circumstances where an issue or allotment of our Shares may be deemed as *especially favourable* to a subscriber or allottee. Under the internal rules of the Japan Securities Dealers Association, an issue or allotment of our Shares will be taken as *especially favourable* to an allottee or subscriber when less than 90% of the market value of the Shares so issued or allotted is required from the said subscriber or allottee in consideration for such allotment or issue.

(ii) Power to dispose of the assets of our Company or any subsidiary

There is no specific provision in our Articles of Incorporation relating to the power to dispose of the assets of our Company or any of our subsidiaries.

Under the Companies Act, an Executive Officer may be authorised by our Board of Directors to determine and execute the disposal of our Company's assets. Neither our Directors nor our Board of the Directors of our Company have the power to dispose of any assets of any subsidiary of our Company.

(iii) Compensation or payments to Directors for loss of office

There is no specific provision in our Articles of Incorporation relating to compensation or payments to Directors for loss of office. Under the Companies Act, a Director dismissed by an ordinary resolution of our Shareholders shall be entitled to demand damages arising from the dismissal from our Company, except in cases where there are justifiable grounds for such dismissal.

(iv) Loans and the giving of security for loans to Directors

Under the Companies Act, loans and the giving of securities for loans to directors are not prohibited. There are, however, provisions in our Articles of Incorporation prohibiting the making of loans or provision of security for loans to our Directors unless such loans or security for loans are permitted under the Companies Act and the Companies Ordinance (as if our Company were a [●] company incorporated in Hong Kong).

(v) Financial assistance to purchase shares of our Company

According to our Articles of Incorporation, our Company may not provide financial assistance to another person for the purpose of, or in connection with, a purchase made or to be made by any person of any Shares in our Company, unless permitted under the Companies Act and the Companies Ordinance (as if our Company were a [●] company incorporated in Hong Kong).

(vi) Disclosure of interests in contracts with our Company or any of our subsidiaries

Under our Articles of Incorporation, our Directors are required to refrain from voting on resolutions in respect of transactions in which they or their associates have a material interest unless permitted under the Companies Act and [●].

Under the Companies Act, if a Director is interested in any contract to be entered into by our Company, disclosure to our Board of Directors of all material information regarding the transaction is required.

(vii) Compensation

Under our Articles of Incorporation, the amount of compensation of our Directors shall be determined by the remuneration committee of our Company.

(viii) Appointment and removal

Our Directors are appointed (for a term of one calendar year) or dismissed on an annual basis at our annual Shareholders' meeting in accordance with our Articles of Incorporation and the Companies Act. Pursuant to our Articles of Incorporation, our Company shall have not more than twelve Directors. The cumulative voting system for the election of Directors is excluded and the term of office of a Director will end at the close of an annual Shareholders' meeting unless such Director is re-elected.

(ix) Proceedings of Directors

In accordance with our Articles of Incorporation, a Director (elected in advance by the Board of Directors) shall convene a meeting of our Board of Directors and shall act as the chairperson of the meeting. Notice of the convocation of a meeting of our Board of Directors shall be sent to each Director at least three days prior to the scheduled date of such meeting; however, such period may be shortened under extenuating circumstances, and the notice period may be waived upon the consent of all Directors.

A resolution of our Board of Directors shall be made by a majority of Directors present at a meeting where the majority of Directors entitled to vote are present. The procedures of our Board of Directors follow the regulations of our Board of Directors, which is a set of internal rules commonly adopted by Japanese companies, in addition to the Companies Act.

(x) Qualification shares

There is no specific provisions in our Articles of Incorporation or the Companies Act relating to qualification shares. In order to be appointed as a Director, our Directors are not required to hold any Share in our Company.

(xi) Remuneration

Under the Companies Act, the amount of remuneration payable to our Directors shall be determined by our remuneration committee. Under our Articles of Incorporation, our Company is required to enter into written service contracts with our Directors.

(xii) Retirement

There is no provision under the Companies Act relating to the retirement of Directors upon reaching any age limit.

(c) Nomination committee, audit committee and remuneration committee

In accordance with our Articles of Incorporation, our Company is a *company with committees*, which is defined in the Companies Act as any stock company which has a nomination committee, an audit committee and a remuneration committee (the "Three Committees"), each of which consists of not less than three Directors. Each member of the Three Committees will be appointed and dismissed by resolution of our Board of Directors. The matters with respect to each of the Three Committees are provided in the Companies Act or the terms of reference of the Three Committees or otherwise determined by our Board of Directors.

Under our Articles of Incorporation, the composition of the Three Committees shall, from time to time, comply with the requirements of the Companies Act and [●].

(d) Executive Officers

(i) Requirement to appoint Executive Officers

Under the Companies Act, a company with the Three Committees shall have one or more Executive Officer(s).

(ii) Duties of Executive Officers

Under the Companies Act, the Executive Officers shall perform the following duties:

(a) deciding on the execution of the operations of our Company that were delegated to our Executive Officers by our Board of Directors pursuant to the Companies Act; and

(b) the execution of the operations of our Company.

(iii) Number and appointment

Under our Articles of Incorporation, our Company shall have not more than ten Executive Officers. All of our Executive Officers shall be appointed by the Board of Directors.

(iv) Duration

Under our Articles of Incorporation, the term of office of an Executive Officer shall end at the closure of the Board meeting that immediately follows the closure of the last annual Shareholders' meeting with respect to the financial year ending within one year from appointment.

(v) Chief Executive Officer (daihyo shikkoyaku 代表執行役*)*

Under our Articles of Incorporation, our Chief Executive Officer shall be appointed by our Board of Directors. Also, our Company may have, but not required to have, through resolution by our Board of Directors, one president Executive Officer, several members of vice president Executive Officer(s), senior Executive Officer(s) and operation Executive Officer(s). The power, duties and other relevant matters with respect to our Executive Officers may be determined by our Board of Directors.

(vi) Compensation

The compensation of the Executive Officer shall be determined by the remuneration committee of our Company.

(vii) Borrowing powers

There is no specific provision in our Articles of Incorporation on our Company's borrowing powers. Under the Companies Act, an Executive Officer may be authorised by our Board of Directors to determine and execute borrowings, including borrowings of a large amount.

(viii) Exemption of Executive Officers

In accordance with our Articles of Incorporation, our Company may exempt current or past Executive Officers from their liabilities for negligence in their duties under the Companies Act by way of resolution of our Board of Directors to the extent allowed under the Companies Act, except where they have been grossly negligent or have acted intentionally.

(e) Alterations to constitutive documents

There is no specific provision in our Articles of Incorporation on amendments to our Articles of Incorporation. Our Company may amend our Articles of Incorporation by way of a special resolution passed at a Shareholders' meeting in accordance with the Companies Act.

(f) Alterations of capital

There is no specific provision in the Articles of Incorporation concerning alterations of our share capital. Share capital is increased upon issue of Shares and may be reduced by, in principle, a special resolution at a Shareholders' meeting and subject to certain requirements under the Companies Act.

(g) Variation of rights of existing Shares or classes of Shares

The Companies Act requires a company incorporated in Japan to amend its articles of incorporation in order to change the rights of existing ordinary shares or to issue new classes of shares. If there is more than one class of Shares, our Articles of Incorporation provide that the quorum for a separate class meeting to consider a variation of the rights of that class of Shares shall be the holders of majority of the issued Shares of that class, unless a greater majority is required under the Companies Act or [●].

(h) Voting rights and right to demand a poll

There is no specific provision in our Articles of Incorporation on voting rights. Our Shareholders have one vote per Share pursuant to the Companies Act. The counting of the voting rights by a show of hand (i.e. one person one vote) is not allowed under the Companies Act.

The method of voting is not restricted under the Companies Act, and the chairperson generally may decide the voting method unless a resolution to adopt another voting method is made at the Shareholders' meeting.

(i) Requirements for annual Shareholders' meetings

In accordance with our Articles of Incorporation, our Company is required to convene an annual Shareholders' meeting within three months after the end of each financial year under the Companies Act.

The annual Shareholders' meeting of our Company shall be convened by a resolution of our Board of Directors in accordance with our Articles of Incorporation. Unless otherwise required under applicable laws, the Director who concurrently serves as our Chief Executive Officer shall convene the Shareholders' meeting and act as the chairperson thereat. Under our Articles of Incorporation, our Company will notify our Shareholders the date on which an annual Shareholders' meeting is to be held no less than ten weeks prior to the meeting by making a voluntary announcement on the Company's website. Convocation notice of an annual Shareholders' meeting will be despatched to the Shareholders at least 21 days prior to the meeting. Our Company may also, when convening a Shareholders' meeting, use the internet to disclose any information to be provided or indicated as reference materials of a Shareholders' meeting, business reports, financial statements, and consolidated financial statements.

Our annual Shareholders' meeting is usually held every June and we currently plan on holding our annual Shareholders' meetings in Japan and/or any other locations as may be indicated in the convocation notices. According to our Articles of Incorporation, the record date for determining the list of eligible Shareholders attend and vote at an annual Shareholders' meeting is 31 March each year.

Shareholders who are unable to attend the annual Shareholders' meetings will be able to vote by proxies following the procedures set out in "Material Shareholders' Matters under Japanese Law — Shareholder rights and obligations — Voting by proxies". Details as to the location and logistics arrangements of each annual Shareholders' meeting for Shareholders who are unable to attend in person will be announced in their respective convocation notices.

(j) Accounts and audit

There is no specific provision in our Articles of Incorporation on accounts and audit. Our Company prepares financial statements and other documents in accordance with the requirements under Companies Act.

(k) Notices of Shareholders meetings and business to be conducted thereat

Our Articles of Incorporation provides that our Company shall send a notice of convocation of Shareholders' meeting to each Shareholder no later than 21 days prior to the date of such Shareholders' meeting.

(l) Transfer of Shares

Our Articles of Incorporation provides that all Shares in our share capital shall be freely transferrable.

(m) Power for our Company to purchase its own Shares

Our Company may repurchase the Shares in accordance with the requirements under the Companies Act.

(n) Power of any subsidiary to own securities in our Company

There is no specific provision in our Articles of Incorporation on any of our subsidiaries holding the Shares. Our subsidiaries may not acquire the Shares, subject to certain exceptions, such as acquisitions through statutory transactions governed by the Companies Act. Under the Companies Act, if any of our subsidiaries acquires the Shares through any such statutory transaction, it would not be entitled to vote at any Shareholders' meeting and is required to dispose of the acquired Shares as soon as reasonably practicable.

(o) Dividends and other methods of distribution

In accordance with our Articles of Incorporation and the Companies Act, our Company is entitled to pay out dividends from our Distributable Amount which shall be determined in principle by a resolution passed at a Board of Directors, and unless otherwise required under the Companies Act, such matters shall not be determined at the Shareholders' meeting.

In accordance with our Articles of Incorporation, our Company is released from any obligation to pay dividends which have not been claimed after the lapse of six full years from the date of declaration. Further, the record date for the payment of year-end dividends is 31 March each year. Our Company may also pay interim dividends and the record date for interim dividends is 30 September each year.

(p) Proxies

Under our Articles of Incorporation, any Shareholder of our Company who is entitled to attend and vote at a Shareholders' meeting of our Company is entitled to appoint another person as his proxy to attend and vote on behalf of him. A Shareholder who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a Shareholders' meeting of our Company or at a class meeting. A proxy needs not be a Shareholder of our Company and there is no limitation nor restriction in respect of the qualification and identity of the proxies and/or corporate representatives to be appointed by the Shareholders. The proxies shall be entitled to exercise the same powers on behalf of a Shareholder who is an individual and for whom he acts as a proxy as such Shareholder could exercise, provided that he/she can present to our Company identity proof and authorisation letter duly signed by such Shareholder (in case of individual

Shareholder) or authorised representative of such Shareholder (in case of corporate Shareholder) to prove his/her authority. In addition, a proxy shall be entitled to exercise the same powers on behalf of a Shareholder which is a corporation and for which he acts as a proxy as such Shareholder could exercise if it were an individual Shareholder. Votes may be given either personally (or, in case of a corporate Shareholder, by its duly authorised representative) or by proxy.

(q) Calls on shares and forfeiture of shares

There is specific provision in our Articles of Incorporation on calls on shares and forfeiture of Shares. Under the Companies Act, our Company cannot issue partially paid Shares, and therefore, our Company cannot make a call upon the Shareholders to pay any money unpaid on the Shares held by them. Pursuant to the Companies Act, a special Shareholders' resolution is required if our Company wishes to merge or conduct other structural changes to our Company that may entail the forfeiture of any Shares in our Company. In order to protect minority Shareholders, the Companies Act provides that in general, any Shareholder who objects to such special Shareholders' resolution is entitled to receive monetary compensation equivalent to the fair market value of such forfeited Shares from our Company.

(r) Inspection of register of members

Shareholders and creditors of our Company are entitled to inspect and make a copy of our share register during the business hours of our Company by giving reasons (which cannot be for an improper purpose) pursuant to the Companies Act. Any person who is not a Shareholder or creditor of our Company may also inspect our share register to the extent allowed under the Personal Data Act. See "Material Shareholders' Matters under Japanese Law — Share register".

(s) Inspection of register of Directors

There is no concept of a register of directors under Japanese law. However, the names of Directors are registered with the relevant authorities in Japan in accordance with the Companies Act, and anyone can review and obtain certified copies of our commercial registration certificate (which shows the names of Directors) issued by such authorities.

(t) Quorum for meetings and separate class meetings

Under the Companies Act, a quorum shall be deemed to be present where Shareholders holding a majority of voting Shares are present in a Shareholders' meeting.

Our Articles of Incorporation provide that where there is more than one class of Shares, the quorum for a separate class meeting to consider a variation of the rights of that class of Shares shall be the holders of majority of the issued Shares of that class in accordance with the Companies Act, unless a greater majority is required under the Companies Act [●].

(u) Rights of the minorities in relation to fraud or oppression

There is no specific provision in our Articles of Incorporation on specific minority Shareholders' rights. Certain rights of minority Shareholders such as rights for demanding that the Directors call a Shareholders' meeting, rights to demand that the Directors include certain matters in the agenda of a Shareholders' meeting, and rights to demand that the Directors notify Shareholders of the summary of the proposals to be presented at a Shareholders' meeting, are provided under the Companies Act.

(v) Procedures on liquidation

There is no specific provision in our Articles of Incorporation on liquidation. Procedures on liquidation are provided under the Companies Act.

(w) Untraceable members

Under our Articles of Incorporation, where notices or demands from our Company do not reach a Shareholder for five consecutive years or more, our Company shall no longer be required to give notices or issue demands to such Shareholder under the Companies Act, unless where a notice or demand from our Company is returned undelivered, our Company shall thereafter no longer be required to give notices or issue demands to such Shareholder under the Companies Act.

(x) Accounting auditor

In accordance with our Articles of Incorporation, the accounting auditor shall be appointed by the Shareholders. The duration of duty of the accounting auditor shall end at the closure of the annual Shareholders' meeting held with respect to the last financial year ending within one year from such appointment. The accounting auditor shall be deemed to be re-appointed unless otherwise resolved in such Shareholders' meeting. Our Board of Directors may exempt the accounting auditor from their liabilities for negligence in their duties under the Companies Act by way of a Board resolution to the extent allowed under the Companies Act, except where they were grossly negligence or have acted with intention.

(y) Other key provisions

In addition to the provisions described above, our Articles of Incorporation provide, among other things, the following:

(i) Method of public notice

Our Company is entitled to distribute our public notices electronically, although our Company must publish an announcement in the Nihon Keizai Shimbun newspaper in the event that such electronic distribution is impossible.

(ii) Record date for voting at the annual general meetings

Our Company treats a Shareholder who is stated or recorded in the share register and who holds voting right(s) on 31 March of a financial year as a Shareholder who is entitled to exercise his rights as a Shareholder at the annual Shareholders' meeting for that financial year.

(iii) Financial year

The financial year of our Company commences on 1 April of each year and ends on 31 March of the next year.

2. JAPANESE CORPORATION LAW

Our Company was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan and is subject to the Companies Act. The Companies Act sets out the legal basis of a stock company and provides for substantive laws and procedural matters with which a stock company must comply, including matters relating to its establishment, conduct of business, powers of the management and supervisory boards, share capital, the rights and obligations of shareholders and the dissolution. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Act and taxation, which may differ from equivalent provisions in jurisdictions with which you may be more familiar with:

(a) Categories of companies

(i) Stock companies and partnership-type companies

Under the Companies Act, companies are categorised into stock companies (*kabushiki-gaisha* 株式会社) and partnership-type companies (*mochibun-gaisha* 持分会社):

A partnership-type company (Part 3 of the Companies Act) is a generic concept comprising the so-called personal companies (*jinteki gaisha* 人的会社), such as a partnership company (*gomei-gaisha* 合名会社), a limited partnership company (*goshi-gaisha* 合資会社) and a limited liability company (*godo-gaisha* 合同会社). Our Company was incorporated as a stock company (*kabushiki-gaisha* 株式会社) and descriptions in this section are principally regarding a stock company (*kabushiki-gaisha* 株式会社).

(ii) Public or non-public companies

Under the Companies Act, companies are categorised into public or non-public companies, and large or other companies:

A public company (*kokai gaisha* 公開会社) is defined as a company whose articles of incorporation do not require the approval of the company for the transfer of any share of one or more classes of the company's stock. On the other hand, a non-public company (*kabushiki joto seigen gaisha* 株式譲渡制限会社) is a company where regarding each class of stock issued by it, transfer of any share is restricted under the articles of incorporation. Given that there is no restriction on the transfer of our Shares, our Company is classified as a public company under the Companies Act.

(iii) Large companies

Companies whose balance sheet for the most recent fiscal year shows a capital of ¥500 million or more, or total liabilities of ¥20 billion or more are defined under the Companies Act as large companies (*daigaisha* 大会社). Our Company is classified as a large company.

(iv) Corporate governance

Under the Companies Act, a company may select several types of corporate governance structures. Our Company is a company with three committees (*iinkai secchi gaisha* 委員会設置会社).

(b) Share capital

(i) Share capital

The share capital of a company is divided into shares. The amount of share capital is the amount paid in by those who are to become shareholders at the time of the establishment of the company, or the issue of shares. Up to half of this amount is not required to be capitalised, but this amount has to be kept as share premium (*shihon junbi kin* 資本準備金). The amount of the share capital is required to be registered with the relevant authorities in Japan.

(ii) Share certificates

The Companies Act defines a "share certificate issuing company" as a company the articles of incorporation of which have provisions to the effect that a share certificate representing its shares (or, in the case of a company with class shares, shares of all classes) shall be issued. Our Company is categorised as a share certificate issuing company (*kabuken hakkou gaisha* 株券発行会社).

A company which does not have provisions in its articles of incorporation to issue share certificates is hereinafter referred to as a non-share certificate issuing company (*kabuken fuhakkou gaisha* 株券不発行会社).

(iii) Transfer of shares

In principle, shares are freely transferable, but companies may place a restriction on transfer of shares, for example, by subjecting such transfer to shareholders or board approval. Transfer can be restricted to all the shares, or to a specific class of shares. Under our Articles of Incorporation, there is no restriction on the transfer of our Shares.

Transfer of shares in a share certificate issuing company shall not become effective unless the share certificates representing such shares are physically delivered; however, this shall not apply to the transfer of shares arising out of the disposition of treasury shares. The subscriber for treasury shares in a share certificate issuing company shall become the shareholder of such shares on the day when the subscriber has paid consideration for such shares. The transfer of shares in a share certificate issuing company shall not be perfect unless the name and address of the person who acquires those shares is stated or recorded in the share register.

(iv) Classes of shares

The Companies Act permits a company to issue shares with specified rights that are not associated with all shares. Classes of shares permitted under the Companies Act include shares with rights in respect of the following matters:

(a) payment of dividends;

(b) distribution on liquidation;

(c) restriction on voting rights;

(d) restriction on share transfer;

(e) appointment of officers at a shareholders' meeting of a certain class; and

(f) matters to be approved at a shareholders' meeting of a certain class as well as a general shareholders' meeting.

In addition to the above, the following types of shares are recognised as permissible classes of shares under the Companies act:

(a) shares with the right to claim for repurchase (*shutoku seikyuken-tsuki kabushiki* 取得請求権付株式);

(b) shares with repurchase clauses (*shutoku joko-tsuki kabushiki* 取得条項付株式); and

(c) shares with clauses to repurchase all shares of a certain class (*zenbu shutoku joko-tsuki kabushiki* 全部取得条項付株式).

Shares with the right to claim for repurchase (*shutoku seikyuken-tsuki kabushiki* 取得請求権付株式) are shares with respect to which the shareholders have put options exercisable against the company. In the event such options are exercised, the company may deliver bonds, share acquisition rights, bonds with share acquisition rights, shares or other assets as consideration, as specified in such company's articles of incorporation. Shares with repurchase clauses (*shutoku joko-tsuki kabushiki* 取得条項付株式) are shares with respect to which a company has call options exercisable against the shareholders when a certain trigger event occurs. Similarly, in the event such options are exercised, the company may deliver bonds, share acquisition rights, bonds with share acquisition rights, shares or other assets as consideration, as specified in its articles of incorporation. Shares with clauses to repurchase all shares of a certain kind are shares with respect to which a company has options to purchase all the shares of a certain class (*zenbu shutoku joko-tsuki kabushiki* 全部取得条項付株式) by a special resolution of a shareholders' meeting.

In order to issue classes of shares, the details and the number of such shares as can be issued need to be specified in the articles of incorporation. Our Company only has one class of Shares (ordinary Shares).

(v) Unit Share System

Shareholders have, in principle, one vote per Share. However, if a company adopts a unit share system, a vote is given not to each share, but to a unit of shares specified under its articles of incorporation. Under the Companies Act, one unit of shares cannot exceed 1,000 shares. Shareholders who hold shares below a unit are entitled to require the company to repurchase these shares. Our Company does not adopt a unit share system.

(vi) Rights of existing shares

Shareholders (excluding (i) a shareholder who is prescribed as an entity in a relationship that may allow the company to have substantial control of such entity through the holding of one quarter or more of the votes of all shareholders of such entity or other reasons, (ii) the company itself in respect of the treasury stock, (iii) a shareholder who has less than one share unit, (iv) a class shareholder whose class shares do not carry voting rights and (v) a shareholder whose shares are to be repurchased pursuant to Paragraph 3 of Article 140, Paragraph 4 of Article 160 and Paragraph 2 of Article 175 of the Companies Act) have one vote per share. Exercise of voting rights by a proxy is permitted under the Companies Act.

To alter the rights of existing shares, a company is required to amend its articles of incorporation, which requires a special resolution of the shareholders.

(vii) Stock split, gratuitous allocation of stock and reverse stock split

A company may at any time split shares in issue into a greater number by a resolution of the board of directors. Under our Articles of Incorporation, stock splits must be approved by our Shareholders by way of an ordinary resolution.

Under the Companies Act, a company may allot any class of shares to the company's existing shareholders without any additional contribution by a board resolution, or gratuitous allocation, provided that any such gratuitous allocation will not accrue to any treasury stock. Under our Articles of Incorporation, Shares may be issued and allotted to any party by an ordinary resolution of the Shareholders, except in the circumstances where an allotment or issue of Shares to a third party is proposed on terms and conditions *especially favourable* to such third party, in which case a special resolution of the Shareholders will be required under the Companies Act. Under our Articles of Incorporation, our Board of Directors may be entrusted with the power to issue and allot Shares by way of a general mandate granted by our Shareholders via an ordinary resolution.

A company may at any time consolidate its shares into a smaller number of shares by a special resolution at a Shareholders' meeting.

(viii) Share acquisition rights (Shinkabu yoyakuken 新株予約権*) ("SAR")*

The Companies Act defines a SAR as a right upon the exercise of which the holder is entitled to receive shares of the issuing company.

SARs do not need to be combined with bonds. It is possible to grant SARs on their own as well as in combination with other financial products.

In order to offer a SAR, certain details need to be approved by a special resolution of the shareholders, including: (i) its details and number; (ii) whether it is issued in a gratuitous manner or not; and (iii) if not, the amount of payment or the method of its calculation, etc.

If SARs are issued in a gratuitous manner and they comprise an *especially favourable* term to the subscriber, or if the issue price is *especially favourable* to the subscriber, the board of directors must explain the rationale behind the issue of SARs in the said manner at a shareholders' meeting. Where SARs are proposed to be

issued in a gratuitous manner, with an *especially favourable* term to the subscriber, or with an issue price that is *especially favourable* to the subscriber, such issue must be approved by a special resolution of the shareholders.

SARs may be issued to the existing shareholders with or without consideration. In such cases, shareholders are entitled to subscribe to the SARs pro-rata to their shareholding.

(ix) Reduction of share capital

A special resolution of the shareholders is required for reduction of share capital. However, where the share capital is reduced in order to cover the deficit at the annual Shareholders' meeting, an ordinary resolution of the shareholders will suffice.

A company must follow certain procedures to protect its creditors' interests when reducing its share capital. A company must publicise the proposed reduction and inform creditors of their entitlement and allow a fixed objection period of no less than one month in the official gazette. The company also must individually notify every known creditor, but this requirement can be exempted under certain circumstances.

(x) Shares held by subsidiaries

Subsidiaries may not acquire shares of their parent company, subject to certain exceptions such as acquisition through certain mergers and acquisitions transactions, acquisitions without consideration, and acquisitions as distribution of surplus from a company other than the parent company. When a subsidiary acquires shares of its parent company pursuant to such exceptions, it is not entitled to vote at any shareholders' meeting and is required to dispose of them at an appropriate time.

(xi) Untraceable shareholders

The Companies Act provides that where notices have not reached a shareholder for five consecutive years and the shareholders of such shares have not received dividends of surplus for five consecutive years, the company shall be entitled to sell or auction the shares of such a shareholder. In exercising this right, a company is required to make a public notice and make a demand to a shareholder or a registered pledgee of shares seeking no objection at least three months prior to such sale or auction.

(c) Financial assistance to purchase shares of a company or its holding company

There is no specific restriction under the Companies Act on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Under, our Articles of Incorporation, our Company may not provide financial assistance to another person for the purpose of, or in connection with, a purchase made or to be made by any person of any Shares in our Company, unless permitted under the Companies Act and the Companies Ordinance (as if our Company were a company incorporated in Hong Kong).

(d) Purchase of shares by a company

Shares can be purchased from shareholders with their consent (i) from the market, (ii) from all shareholders, or (iii) from a specific shareholder.

With respect to case (i) above, companies with a board of directors may, if the articles of incorporation allow, repurchase shares from the market with a board resolution. If the shares are repurchased from all shareholders (case (ii) above), an ordinary resolution of the shareholders is sufficient. If shares are repurchased from specific shareholder (case (iii) above), a special resolution of the Shareholders is required. In case (iii) above, the name of this such specific shareholder is required to be disclosed and approved at a shareholders' meeting. Subject to certain exceptions, other shareholders are entitled to demand the relevant company to repurchase their shares in the same manner.

The source of funds for carrying out the share repurchase is restricted to the Distributable Amount as defined in the paragraphs headed "— Japanese Corporation Law — (e) Dividends and distribution — (i) Restriction on distribution of dividends" below.

(e) Dividends and distributions

Under the Companies Act, a company may stipulate in its Articles of Incorporation that its board of directors may determine dividend distribution unless such dividend is proposed to be paid in kind (other than shares, bonds (including convertible bonds) and share options issued by such company, which the Companies Act prohibits) without giving shareholders the right to demand distribution in cash (in which case a special shareholders' resolution would be required)). Accordingly, under our Articles of Incorporation, our Company may distribute dividend by a resolution of our Board of Directors unless such dividend is be paid in kind (other than Shares, bonds (including convertible bonds) and share options issued by our Company, which the Companies Act prohibits) without giving Shareholders the right to demand distribution in cash). A resolution of our Board of Directors authorising a distribution of dividends must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of the assets to Shareholders and the effective date of the distribution. The record date for year-end dividends shall be 31 March each year, however, our Company may determine a different record date for an additional declaration of dividends. Also, our Board of Directors may authorise the distribution of an interim dividend with a record date of 30 September each year under our Articles of Incorporation.

Under the Companies Act, Shares, bonds (including convertible bonds) and share option issued by our Company are prohibited from being distributed as dividend and interim dividend can only be distributed as cash. Scrip dividends in the form of Shares, bonds (including convertible bonds) or share option issued by our Company are prohibited under the Companies Act. The Companies Act provides that a company with a board of directors may distribute interim dividends every financial year if a company provides in its articles of incorporation that it may do so by a resolution of the board of directors. Our Articles of Incorporation provide that our Company may distribute interim dividends by a Board resolution, and the relevant record date is 30 September each year.

According to the Civil Code, claims, including Shareholders' rights to receive distributions of dividends and residual assets, are extinguished if it had not been exercised for ten years, unless there is a Japanese court precedent permitting a provision to be included in the articles of incorporation of a Japanese company allowing Shareholders' rights to receive distributions of dividends to be extinguished if it has not been exercised for five years. On 3 August 1927, the Supreme Court of Japan ruled that a Japanese company may, in its articles of incorporation, allow Shareholders' rights to receive dividends to be extinguished if it has not been exercised for a period less than ten years. Accordingly, under our Articles of Incorporation, all dividends unclaimed for six years after having been declared may be forfeited by, and reverted to, our Company.

(i) Restriction on distribution of dividends

When we distribute dividends, the smaller amount of (i) 10% of the surplus so distributed, or (ii) an amount equal to one quarter of our share capital less the aggregate amount of our share premium (*shihon junbi kin* 資本準備金) and legal reserve (*rieki junbi kin* 利益準備金) as at the date of such distribution needs to be set aside either as share premium (*shihon junbi kin* 資本準備金) or legal reserve (*rieki junbi kin* 利益準備金) until the aggregate amount of its share premium (*shihon junbi kin* 資本準備金) or legal reserve (*rieki junbi kin* 利益準備金) reaches one quarter of its share capital.

Under the Companies Act, a company may distribute dividends up to the excess of the aggregate of (a) and (b) below, less the aggregate of (c) through (f) below, as at the effective date of the distribution (the "Distributable Amount"), if net assets are not less than ¥3,000,000:

(a) the amount of retained earnings (*joyo kin* 剰余金), as described below;

(b) in the event that extraordinary financial statements as at, or for a period from the beginning of the financial year to, the specified date are approved, the aggregate amount of (i) the aggregate amount as provided for by an ordinance of the Ministry of Justice as the net income for such period described in the statement of operations constituting the extraordinary financial statements, and (ii) the amount of consideration received for treasury stock disposed of during such period;

(c) the book value of treasury stock;

(d) in the event that a company disposes of treasury stock after the end of the latest financial year, the amount of consideration received for such treasury stock;

(e) in the event described in (b) above, the amount of net loss for such period described in the statement of operations constituting the extraordinary financial statements; and

(f) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of our goodwill and deferred assets exceeds the total of our share capital, share premium (*shihon junbi kin* 資本準備金) and legal reserve (*rieki junbi kin* 利益準備金), each such amount as

it appears on the balance sheet as at the end of the latest financial year) all or a certain part of such excess amount as calculated in accordance with the ordinances of the Ministry of Justice.

For the purpose of (b) above, an extraordinary financial statement of a company is (aa) a balance sheet of such company as at the extraordinary account closing date, which is a particular date in the current financial year designated at the discretion of such company; and (bb) a profit and loss statement of such company for the period commencing from the first date of the current financial year and ending on the extraordinary account closing date. Under Japanese law, a company may opt to, but is not required under any circumstances to, prepare extraordinary financial statements, especially when such company wishes to know grasp its financial status at a particular point of the current financial year.

For the purposes of this section, the amount of retained earnings (*joyo kin* 剰余金) is the excess of the aggregate of I. through IV. below, less the aggregate of V. through VII. below:

I. the aggregate of other capital surplus and other retained earnings at the end of the last financial year;

II. in the event that a company disposes treasury stock after the end of the last financial year, the difference between the book value of such treasury stock and the consideration received for such treasury stock;

III. in the event that share capital is reduced after the end of the last financial year, the amount of such reduction less the portion thereof that has been transferred to share premium (*shihon junbi kin* 資本準備金) and/or legal reserve (*rieki junbi kin* 利益準備金) (if any);

IV. in the event that share premium (*shihon junbi kin* 資本準備金) and/or legal reserve (*rieki junbi kin* 利益準備金) were reduced after the end of the last financial year, the amount of such reduction less the portion thereof that has been transferred to share capital (if any);

V. in the event that a company cancels treasury stock after the end of the last financial year, the book value of such treasury stock;

VI. in the event that a company distributes dividends after the end of the last financial year, the aggregate of the following amounts:

a. the aggregate amount of the book value of the distributed assets, excluding the book value of such assets that would be distributed to shareholders as a result of their exercise of the right to receive dividends in cash instead of dividends in kind;

b. the aggregate amount of cash distributed to shareholders who exercised the right to receive a distribution in cash instead of a distribution in kind; and

c. the aggregate amount of cash paid to shareholders holding fewer shares than the shares that were required in order to receive a distribution in kind;

VII. the aggregate amounts of a. through d. below, less e. and f. below:

a. in the event that the amount of retained earnings (*joyo kin* 剰余金) was reduced and transferred to share premium (*shihon junbi kin* 資本準備金), legal reserve (*rieki junbi kin* 利益準備金) and/or share capital after the end of the last financial year, the amount so transferred;

b. in the event that a company distributes dividends after the end of the last financial year, the amount set aside in our reserve (*junbi kin* 準備金);

c. in the event that a company disposes treasury stock through (x) a merger in which a company acquires all rights and obligations of another company, (y) a corporate split in which a company acquires all or a part of the rights and obligations of the split-off company or (z) a share exchange in which a company acquires all shares of another company after the end of the last financial year, the difference between the book value of such treasury stock and the consideration that the company received for such treasury stock;

d. in the event that the amount of retained earnings (*joyo kin* 剰余金) was reduced in the process of a corporate split in which a company transferred all or a part of its rights and obligations after the end of the last financial year, the amount so reduced;

e. in the event of (x) a merger in which a company acquires all rights and obligations of another company, (y) a corporate split in which a company acquires all or a part of the rights and obligations of the split-off or (z) a share exchange in which a company acquires all shares of another company after the end of the last fiscal year, the aggregate amount of (i) the amount of other capital surplus after such merger, corporate split or share exchange, less the amount of other capital surplus before such merger, corporate split or share exchange, and (ii) the amount of other retained earnings after such merger, corporate split or share exchange, less the amount of other retained earnings before such merger, corporate split or share exchange; and

f. in the event that an obligation to cover a deficiency, such as the obligation owed by a person who subscribed to newly issued shares with an unfair amount to be paid in, was fulfilled after the end of the last fiscal year, the amount of other capital surplus increased by such payment.

In Japan, the record date for any distribution of dividends generally comes before the date a company determines the amount of distribution of dividends to be paid.

(f) Protection of minority shareholders

(i) Rights to demand that directors to call a shareholders' meeting

Under the Companies Act, shareholders holding shares consecutively for the preceding six months or more (or, where a shorter period is prescribed in the articles of incorporation, that period or more) representing not less than 3% (or, where a

lesser proportion is prescribed in the articles of incorporation, that prescribed proportion) of the votes of all shareholders may demand that the directors, by illustrating the matters which shall be the purpose of the shareholders' meeting (limited to matters on which the Shareholders may exercise their votes) and providing the reason for the calling of the Shareholders' meeting. Our Articles of Incorporation removed the said six months' consecutive ownership requirement. As such, all Shareholders who are interested in, as at the time of the demand, 3% or more of the votes of all Shareholders may demand the Directors to convene a Shareholders' meeting in the procedures prescribed above.

In cases where (i) the calling procedure is not effected without delay after the demand stated above is made; or where (ii) a notice is not despatched for the calling of the shareholders' meeting which designates, as the day of the shareholders' meeting, a day falling within the period of eight weeks (or, where any period less than that is provided for in the articles of incorporation, that period) from the day of the demand, the shareholders who made the demand may proceed to call the shareholders' meeting with the court's permission.

(ii) Rights to demand that directors add certain matters to the agenda of a shareholders' meeting

At a company with board of directors, only shareholders holding consecutively for the preceding six months or more (or, where a shorter period is prescribed in the articles of incorporation, that period or more) not less than 1% (or, where a lesser proportion is prescribed in the articles of incorporation, that proportion) of the votes of all shareholders or not less than 300 (or, where a lesser number is prescribed in the articles of incorporation, that number) votes of all shareholders may demand that the directors include certain matters in the agenda of the shareholders' meeting. In those cases, that demand shall be submitted no later than eight weeks (or, where a shorter period is prescribed in the articles of incorporation, that prescribed period) prior to the day of the shareholders' meeting. Our Articles of Incorporation removed the said six-month consecutive ownership requirement. As such, any Shareholder interested in, as at the time of request, 1% of the votes of all Shareholders, may demand the Directors to include certain matters in the agenda of our Shareholders' meetings.

Our Company will notify the Shareholders of the date on which an annual Shareholders' meeting is to be held no less than ten weeks prior to the date of such meeting by making a voluntary announcement on the Company's website.

(iii) Rights to demand that directors include a proposal in a convocation notice

Shareholders may demand that the directors, no later than eight weeks (or, where any period less than that is prescribed in the articles of incorporation, that prescribed period) prior to the day of the shareholders' meeting, notify shareholders of the summary of the proposals which the demanding shareholders intend to submit with respect to the matters that are the purpose of the shareholders' meeting; however, for a company with board of directors, only shareholders holding consecutively for the preceding six months or more (or, where a shorter period is prescribed in the articles of incorporation, that period or more) not less than 1% (or, where a lesser proportion is prescribed in the articles of incorporation, that proportion) of the votes of all shareholders or not less than 300 (or, where a lesser number is prescribed in the articles of incorporation, that prescribed number) votes of all shareholders may make the demand. Our Articles of Incorporation removed the said

six-month consecutive ownership requirement. As such, any Shareholder interested in, as at the time of request, 1% of the votes of all Shareholders may demand the Directors to include a proposal in the convocation notices of our Shareholders' meetings.

Our Company will notify the Shareholders of the date on which an annual Shareholders' meeting is to be held no less than ten weeks prior to the date of such meeting by making a voluntary announcement on the Company's website.

(iv) Derivative action

In a derivative action, shareholders are allowed to pursue the liability of directors *vis-à-vis* the company on its behalf. In addition to the recovery of the loss to the company, this system also functions as a deterrent against negligence of duties and wrongdoings by directors and other officers of the company. A shareholder who have held a share for six months or more (or, where a shorter period is prescribed in the articles of incorporation, that period or more) before taking action is entitled to require the company, in writing, to initiate an action to pursue the liability of directors, accounting adviser, statutory auditors, senior executive officers, accounting auditors, incorporators, directors and statutory auditors in the establishment procedure, and liquidators. However, if the action is intended for the unjust benefit of the plaintiff shareholder, or a third party, or to cause damage to the company, this does not apply. If the company does not take any action within sixty days of the request, the shareholder who made the request is entitled to initiate an action in pursuit of liability of the above people. If, by waiting sixty days, there is a likelihood of irrecoverable loss caused to the company, the shareholder may initiate an action straight away.

Liability of directors can be capped (i) by a resolution of the general shareholders' meeting after the incident, or (ii) by the articles of incorporation in advance. However, if shareholders holding not less than 3% (or, where a lesser proportion is prescribed in the articles of incorporation, that prescribed proportion) of the votes of all shareholders (excluding officers subject to the liability) state objections to such a cap during a specified period of time, the company shall not effect the exemption pursuant to those provisions of the articles of incorporation.

(v) Compulsory acquisitions

Under Japanese law, there is no specific provision as to the circumstances under which minority Shareholders may be brought out of our Company or may require an offeror to buy out their interests in our Company after a successful takeover or share repurchase. However, our Japan Legal Adviser confirmed that this can be accomplished in the following manner:

(a) Buying out of minority Shareholders

Under the Companies Act, there is no specific provision for buying out or compulsory acquisition of Shares from minority Shareholders. However, our Company may adopt certain measures to buy out the minority Shareholders from our Company, including:

(1) conversion of Shares into class Shares subject to a class-wide call pursuant to which only fractional Shares are provided to minority Shareholders upon our Company exercising its call (as a result, minority Shareholders can only receive cash);

(2) a merger pursuant to which Shares of the surviving (or consolidated) company is not provided to any Shareholders of the dissolving company or only fractional shares of the surviving (or consolidated) company are provided to all minority Shareholders (as a result, minority Shareholders can only receive cash);

(3) a statutory share exchange pursuant to which no shares of the wholly-owing parent company is provided to all minority shareholders of the wholly-owned subsidiary (as a result, minority Shareholders can only receive cash);

(4) a statutory share transfer pursuant to which no shares of the wholly-owing parent company is provided to any minority shareholders of the wholly-owned subsidiary or only fractional shares of the wholly-owning parent are provided to all minority shareholders of the wholly-owned subsidiary (as a result, minority Shareholders can only receive cash); and

(5) a consolidation of Shares pursuant to which only fractional Shares are provided to all minority Shareholders (as a result, minority Shareholders can only receive cash).

In general, according to the Companies Act, each of the above measures may require a special resolution of a Shareholders' meeting, approved by two-third of the votes cast at such Shareholders' meeting at which Shareholders holding at least one-third of the total voting rights in our Company are present.

Further, there is no restriction in relation to the acquisition price in any transaction set forth under items (1), (2), (3) and (4) above. However, the Companies Act provides dissenting Shareholders with right to receive monetary compensation calculated based on the fair value of our Company's Shares if they dissent to any transaction set forth under items (1), (2), (3) and (4) above prior to the relevant Shareholders' meeting and actually vote against the relevant resolution of a transaction at the Shareholders' meeting.

In this regard, our Articles of Incorporation increase the protection to minority Shareholders by providing that at least 90% of votes from all Shareholders holding Shares with voting rights are required to (i) approve the above-mentioned measures to buy the minority Shareholders out of our Company; and (ii) to amend the provisions in our Articles of Incorporation relevant to this 90% voting requirements.

(b) Rights of minority Shareholders to request for a compulsory acquisition

Under the Companies Ordinance, in case of a successful takeover, minority shareholders have the right to require the person conducting the takeover to acquire Shares held by such minority Shareholders if they have not accepted the takeover offer before the expiry of the offer. There is no equivalent provision

under Japanese law. However, a Shareholder may, under the Companies Act, force our Company to repurchase his/her Shares at a fair price following a merger or business transfer, provided that such Shareholder (i) has informed our Company his objection to such merger or business transfer prior to the Shareholders' meeting approving the relevant merger or business transfer; and (ii) has voted against such merger or business transfer at the relevant Shareholders' meeting.

A Shareholder may, in addition to the above circumstance, require our Company to repurchase his/her Shares if he/she has informed our Company of his/her objection to the following transactions prior to the Shareholders' meeting, and has voted against the special resolution at the Shareholders' meeting in respect of the following transactions:

(a) the introduction of restrictions on share transfers;

(b) the introduction of a condition that permits our Company to force Shareholders to sell the Shares to our Company;

(c) in case the following transactions are determined for a certain class of Shares without resolution of corresponding class Shareholders' meeting:

(1) consolidation of Shares or splitting of Shares;

(2) allotment of Shares without contribution;

(3) amendment to the Articles on the share unit;

(4) certain solicitation of persons to subscribe for the Shares of our Company;

(5) certain solicitation of persons to subscribe for the share options; and

(6) allotment of share options without contribution.

In the above circumstances, a Shareholder must inform our Company of his/her objection prior to the Shareholders' meeting and must vote against the special resolution at the Shareholders' meeting. The Shareholder must specify the number of shares he/she wishes to have our Company purchase within 20 days prior to the effective date of the special resolution.

(g) Management

(i) The shareholders' meeting

The shareholders' meeting is empowered to decide upon matters provided for in the Companies Act as well as all matters concerning the organisation, management, administration, etc. of a company. There are two types of the shareholders' meeting: extraordinary shareholders' meeting and annual shareholders' meeting. In companies with a board of directors, the shareholders' meeting is empowered to decide only

upon matters provided for in the Companies Act and in the articles of incorporation. A company is required to convene an annual shareholders' meeting within three months after the end of each financial year.

Under our Articles of Incorporation, our Company will notify the Shareholders the date on which an annual Shareholders' meeting is to be held no less than ten weeks prior to the meeting by making a voluntary announcement on the Company's website. Notice of convocation of a shareholders' meeting setting forth the time, place, purpose thereof and certain other matters set forth in the Companies Act and relevant ordinances, together with business report and financial results must be mailed to each shareholder having voting rights at least 21 days prior to the date set for such meeting. Such notice may be given to the Shareholders by electronic means, subject to the consent of the relevant Shareholders.

There are three types of resolution: an ordinary resolution (*futsu ketsugi* 普通決議), a special resolution (*tokubetsu ketsugi* 特別決議), and a qualified special resolution (*tokushu ketsugi* 特殊決議).

(a) Ordinary resolutions

An ordinary resolution shall be passed by a majority of the votes cast at a Shareholders' meeting at which shareholders representing more than half of the total voting rights in our Company need to be present. Quorum can be set by the articles of incorporation. For a resolution to appoint or dismiss directors, statutory auditors, etc., even by the articles of incorporation, the quorum cannot be set below one third.

(b) Special resolutions

A special resolution shall be made by two thirds (where a higher proportion is provided for in the articles of incorporation, that proportion) or more of the votes cast at a Shareholders' meeting where the shareholders representing more than half of the total voting rights in our Company are present. A special resolution is required in certain matters, including:

- reverse stock split;
- issue of new shares on terms and conditions that are *especially favourable*;
- issue of share acquisition rights at a particularly favourable subscription price or particularly favourable conditions;
- distribution of dividend in kind (other than Shares, bonds (including convertible bonds) and share options issued/granted by our Company, which the Companies Act prohibits) without giving shareholders the rights to demand distribution in cash;
- acquisition at any time within two years after the incorporation of the company of assets that existed prior to such incorporation and which continue to be used for its business (*jigo-setsuritsu* 事後設立);
- merger;
- corporate split;

- share exchange (*kabushiki-kokan* 株式交換) and share transfer (*kabushiki iten* 株式移転);
- transfer of the entire business or a significant part of the business; and
- dissolution of the company.

For further information of share exchanges (*kabushiki-kokan* 株式交換) and share transfers (*kabushiki iten* 株式移転) that require approval by special resolutions, please refer to "— 2. Japanese Corporation law — (m) Share transfers and share exchanges" in this Appendix below.

(c) Qualified special resolutions

Under the Companies Act and the Articles of Incorporation, there are matters that require resolution of the Shareholders that is more stringent than a special resolution. With respect to resolutions for matters described below, the approval of both (i) 50% or more of the Shareholders who are entitled to exercise their voting rights at a Shareholders' meeting; and (ii) two thirds or more of the votes of such Shareholders is required:

- amendment to the Articles of Incorporation, as a result of which any or all of the Shares of the Company is restricted and requires the approval of the Board of Directors;
- approval of an absorption-type (*kyushu gappei* 吸収合併) merger by which the Company would be dissolved or of a statutory share exchange by which the Company would become a wholly-owned subsidiary, where the Company does not restrict transfer of its Shares and all or part of the consideration paid to the Shareholders consist of Shares with transfer restrictions; and
- approval of a incorporation-type merger (*shinsetsu gappei* 新設合併) by which the Company would be dissolved or of a statutory share transfer by which the Company would become a wholly-owned subsidiary, where the Company does not restrict transfer of its Shares and all or part of the consideration paid to the Shareholders consist of Shares with transfer restrictions.

Absorption-type mergers (*kyushu gappei* 吸収合併) and incorporation-type mergers (*shinsetsu gappei* 新設合併) are the two types of mergers allowed under the Companies Act. An absorption-type merger (*kyushu gappei* 吸収合併) is a merger whereby an existing company absorbs one or more other existing companies, while an incorporation-type merger (*shinsetsu gappei* 新設合併) is a merger whereby a new company is incorporated to absorb one or more existing companies.

As a general rule, a special resolution is sufficient for approving an absorption-type merger or an incorporation-type merger. However, as exceptions to the general rule, Japanese law requires a more stringent approval requirement for the two types of transactions above as holders of shares without transfer restrictions in the pre-merger entity would, as a result of the two types of transactions above, become holders of shares with transfer restrictions in the post-merger entity, thereby limiting their equity interests.

With respect to resolutions for matters described below, the approval of both (i) 50% or more of all Shareholders; and (ii) 75% or more of the votes of such Shareholders is required:

- amendment to the Articles of Incorporation that would result in unequal treatment to any Shareholder.

(d) Resolutions that require unanimous Shareholders' approval

There are also cases where unanimous Shareholders' approval is required:

- full exemption from certain type of liability of a Director, accounting auditors and Executive Officer;
- establishment of, or amendments to, a provision in the Articles of Incorporation that would give the Company the right to redeem all Shares of the Company if the Articles of Incorporation does not permit issuance of more than one class of Shares;
- establishment of, or amendment to, a provision in the Articles of Incorporation prohibiting Shareholders from requesting the Company to include them among Shareholders from whom the Company has determined to repurchase Shares;
- convocation of a Shareholders' meeting without sending a convocation notice to Shareholders;
- passing a written resolution without convening a Shareholders' meeting; and
- conversion into another type of company.

(ii) Directors and the board of directors

It is mandatory for each company to have a director. In companies with three committees, there must be a board of directors consisting of at least three directors. Certain persons such as a juridical person may not become a director of a company. However, a public company (which our Company is one) may not limit the qualifications of directors by requiring such directors to be one of its shareholders. Directors are appointed and dismissed at the general shareholders' meeting. Shareholders representing more than half of the total voting rights (this quorum can be lowered by the articles of incorporation, but cannot be lower than one-third of the votes) need to be present, and an ordinary resolution of shareholders' meeting is required. The same applies to dismissals of Directors. When the appointment of two or more directors is on the agenda, shareholders may propose resorting to the cumulative voting system, but this can be excluded by the articles of incorporation. Our Articles of Incorporation have excluded such cumulative voting system. Directors can be dismissed any time at the general shareholders' meeting by an ordinary resolution. In companies that issued shares with a veto right regarding the dismissal of directors, such dismissal must also be approved at the meeting of shareholders of this class. In companies with shares to appoint a certain number of directors, dismissal of such directors so appointed requires the approval of this class of shareholders.

The term of office of our Directors terminates at the close of the general meeting of Shareholders relating to the last fiscal year ending within one year from the election of the director. However, such term may be shortened by the articles of incorporation or a resolution of a general meeting of shareholders.

In companies with three committees, directors, as a rule, do not execute the business of the company. The board of directors in those companies is intended to perform a supervisory role.

(iii) Three committees

Three Committees include the nomination committee, the audit committee and the remuneration committee. Under the Companies Act, each of the Three Committees shall comprise three or more Directors and the majority of them shall be outside directors (*shagai torishimariyaku* 社外取締役). An outside director is defined under the Companies Act as a director who (a) is neither an executive director nor executive officer, nor an employee, including a manager, of a company or any of its subsidiaries; and (b) who has never been an executive director nor executive officer, nor an employee, including a manager, of a company or any of its subsidiaries. In addition to the requirements under the Companies Act, our Articles of Incorporation provides that the composition of the Three Committees shall, from time to time, comply with the requirements under [●]. The members of each of the Three Committees shall be appointed and dismissed by resolution of the board of Directors.

The nomination committee shall determine the contents of proposals regarding the election and dismissal of directors to be submitted to a shareholders meeting.

The audit committee shall audit the execution of duties by executive officers and directors and preparing audit reports or determine the contents of proposals regarding the election and dismissal of accounting auditors and the refusal to re-elect accounting auditors to be submitted to a shareholders meeting.

The remuneration committee shall determine the remunerations for individual executive officers and directors.

(iv) Executive officers

In companies with three committees, instead of representative directors, there are executive officers (*shikko-yaku* 執行役) who are appointed by the board of directors, but not necessarily from among the directors, and chief executive officers who are appointed by the board of directors from among executive officers to represent the company. There is a mandate relationship between three committees and executive officers. Executive officers make decisions on the matters delegated to them by the decision of the board of directors, and execute the business of the company. The term of office of the executive officers shall expire at the first meeting of the board of directors convened following the close of the annual shareholders meeting relating to the most recent financial year ending within one (1) year following their election.

Board of directors shall appoint representative executive officers who shall represent the stock company from among the executive officers.

(v) Accounting auditors

Accounting auditors shall audit the financial statements and the supplementary schedules thereof, the temporary financial statements as well as the consolidated financial statements of a stock company. The accounting auditor shall be elected at a shareholders meeting. The term of office of accounting auditor shall expire at the close of the annual shareholders meeting for the most recent financial year ending within one (1) year following their election.

(vi) Relationship between the company and the officers

There is a mandate relationship between the company and its officers (the directors, the accounting adviser, and statutory auditors). As such, directors and the other officers have a duty to act as good managers. Directors owe a fiduciary duty *vis-à-vis* the company: i.e., the duty to comply with the law, articles of incorporation, and the resolutions of the general shareholders' meeting, and loyally carry out their duties.

(vii) Conflict of interest

In the following cases, directors and executive officers must disclose all the material facts regarding the transactions to the board of directors and seek its approval:

- effecting a transaction within the area of business of the company for himself or for the benefit of a third party.
- effecting a transaction with the company for himself or for the benefit of a third party.
- effecting a transaction on behalf of the company with a third party in cases where there is a conflict of interests between the company and the director, such as in cases where the company guarantees the debt of the director to a lender.

Upon execution of the transaction, the director and executive officers executing the transaction shall also report promptly the material information regarding such transaction to the board of directors.

(h) Amendment of Articles of Incorporation

A company may amend its articles of incorporation by a special resolution of a shareholders' meeting except where a company (excluding a company that has issued two or more classes of shares) intends to increase the number of shares authorised to be issued by amending its articles of incorporation for the purpose of, and on the same date as, performing a stock split, in which case a board resolution would be sufficient.

(i) Inspection of corporate records

(i) Share register

Under the Companies Act, a Shareholder or creditor wishing to inspect the share register may request to do so in person at our [●] during normal business hours. A printed copy of our share register may also be requested.

Our [●] will require a Shareholder or creditor to complete a prescribed form setting out details of the Shareholder or creditor and the purpose of inspection. Our [●] will then contact our Company and notify the Shareholder or creditor of the Company's decision within two business days and, if approved, our [●] will notify the Shareholder or creditor of the date of the inspection. Other than applicable printing costs, no fee will be charged for the inspection.

The Companies Act allows our Company to refuse a request for inspection of our share register only under the following circumstances:

(i) where a request is made for a purpose other than in relation to securing or exercising rights as a Shareholder or creditor;

(ii) where a request is made for the purpose to interfere with our business operation or to damage the interests of Shareholders as a whole;

(iii) where the person making a request is carrying on, or is engaged in, a business substantially in competition with our business;

(iv) where a request is made to inform, in exchange for payment, a third party of any fact that could not have been obtained other than from inspection (including copying); and

(v) where a person making a request has informed, in exchange for payment, a third party of any fact that could not have been obtained other than from inspection (including copying) during the last two years.

Any person who is not a Shareholder or creditor of our Company (including national and prefectural governmental agencies) may also, to the extent allowed under the Personal Data Act, inspect and obtain a copy of our share register. As advised by our Japan Legal Adviser, the inspection of our share register is allowed under the Personal Data Act if:

(i) the inspection of share register is based on laws and regulations;

(ii) the inspection of share register is necessary for the protection of the life, body, or property of an individual and if it is difficult to obtain the consent of the person;

(iii) the inspection of share register is specially necessary for improving public health or promoting the sound growth of children and if it is difficult to obtain the consent of the person; or

(iv) the inspection of share register is necessary for cooperating with a state organ, a local government, or an individual or a business operator entrusted by one in executing the affairs prescribed by laws and regulations and if obtaining the consent of the person is likely to impede the execution of the affairs.

(ii) Accounting documents

Shareholders who are interested in 3% or more of the total voting rights in our Company are entitled to inspect and make a copy of the accounting documents by giving reasons. Our Company is not entitled to refuse the request unless (i) the Shareholder makes this request to pursue goals other than the investigation for the protection or exercise of his or her rights; (ii) the Shareholder makes this request to obstruct our Company from executing its business and to harm the interests of the Shareholders as a whole; (iii) the Shareholder is in a business substantially in Competition with our Company, or is involved in the business of our Company; (iv) the Shareholder makes the request in order to report facts which he/she learns by inspecting or copying the account books or materials relating thereto to third parties for profit; or (v) the Shareholder is a person who has reported facts which he/she has come to learn by inspecting or copying the account books or materials relating thereto to third parties for profit during the last two years.

(iii) Commercial register

A stock company is required to register certain matters with the relevant authorities in Japan such as (i) the purposes, (ii) trade name, (iii) location, (iv) share capital, (v) total number of shares to be issued, (vi) details of shares, (vii) number of share unit (if any), (viii) total number of issued shares, (ix) name, address and business office of the administrator of the share register (if any), (x) matters regarding share acquisition rights, (xi) names of directors, (xii) names and addresses of representative directors, (xiii) if the company is a company with a board of directors, a company with accounting auditors, a company with statutory auditors, and/or a company with a board of statutory auditors, a statement to that effect, (xiv) if there are provisions in the articles of incorporation with regard to exemptions from liability of directors, accounting advisers, statutory auditors, executive officers or accounting auditors, such provisions of the articles of incorporation, (xv) if there are provisions in the articles of incorporation with regard to the agreements for the limitation of liabilities assumed by outside directors, accounting advisers, outside statutory auditors or accounting auditors, such provisions of the articles of incorporation, (xvi) URL for disclosure of certain information to be included in financial statements, and (xvii) matters regarding public notice. In addition to the above, certain corporate actions such as mergers and corporate splits are also registered.

For (xv) above, accounting advisers (*kaikeisanyo* 会計参与) of a company shall prepare, jointly with the directors, financial statements and the supplementary schedules thereof, extraordinary financial statements and consolidated financial statements of such company. Our Company may or may not appoint an accounting adviser under the Companies Act. Accounting auditors (*kaikeikansanin* 会計監査人), on the contrary, are external certified public accountants who shall audit the financial statements and the supplementary schedules thereof, extraordinary financial statements and consolidated financial statements prepared by the directors (with or without the assistance of accounting advisors). Our Company, as a company with Three Committees, must appoint an accounting auditor under the Companies Act.

Our Company is a company with Three Committees (as opposed to a company with statutory auditors). Therefore, the position of statutory auditors (*kansayaku* 監査役) is not applicable to our Company.

Anyone may inspect the commercial register at the legal affairs bureau having jurisdiction over a company.

(j) Winding up

(i) Dissolving

Under the Companies Act, our Company may dissolve itself by a special resolution of the Shareholders. Upon dissolution of our Company, our Director(s) will cease to serve in such directorial capacity and our former Director(s) (excluding Directors who are members of the audit committee) will become the liquidator(s) of our Company by default, unless otherwise provided for in our Articles of Incorporation or determined by a Shareholders' resolution.

After our Company is dissolved, we would continue to exist as a corporate entity. However, our sole purpose will be to liquidate itself. In other words, our Company, if dissolved, would not be able to operate our business in the same manner as we currently do prior to the dissolution.

(ii) Liquidation

Once our Company is dissolved, it would then proceed to liquidate itself. Liquidation is a procedure for our Company to wind-up its affairs and eventually cease to be a corporate entity. During this process, liquidators would act as representatives of our Company. Our Company may pass a resolution for dissolution by special resolution of the Shareholders.

(k) Indemnification

If the officers (the directors, the executive officers and the accounting auditors) of a company shall be liable to such company for damages arising as a result of negligence of their duties, there are some indemnity provisions applicable to them under the Companies Act. An exemption from liability may be given with the consent of all Shareholders; or a partial exemption from liability may be given by a board resolution if the relevant officers acted without knowledge and was not grossly negligent in performing his/her duties by a provision of the Articles of Incorporation.

(l) Accounting and auditing requirements

Under the Companies Act, our Company must prepare accurate account books in a timely manner pursuant to the applicable ordinance of the Ministry of Justice, and shall retain its account books and important materials regarding its business for ten years from the time of the closing of the relevant account books. In general, Shareholders having not less than 3% of the total voting rights in our Company (excluding Shareholders who may not exercise their votes on any matter that may be resolved at a Shareholders' meeting), or Shareholders holding not less than 3% of the issued share capital (excluding treasury Shares), may make a request to inspect or copy such documents at any time during the business hours of our Company, disclosing the reasons for such request. If it is necessary for the purpose of exercising the rights of a shareholder of the parent company of our Company, he/she may, with the permission of the court, make the request for inspection or copying of such accounting books or materials, disclosing the reasons for such request. If such request is made, our Company may not refuse the request except as set forth in the Companies Act.

Under the Companies Act, an Executive Officer designated by our Board of Directors will prepare financial statements (meaning balance sheets, profit and loss statements and statement of changes in net assets and notes to specific items) and business reports for each financial year and supplementary schedules thereof, pursuant to the applicable ordinance of the Ministry of Justice. The financial statements and supplementary schedule thereof must be audited by the accounting auditor in accordance with JGAAP and by the audit committee of the Company.

The financial statements, business reports and supplementary schedules thereof prepared in accordance with JGAAP must then be approved by our Board of Directors. Once approved by our Board of Directors, our Company would despatch such financial statements and business reports to all registered Shareholders entitled to receive the convocation notices of Shareholders' meetings of our Company along with the convocation notice of an annual Shareholders meeting at which statements are presented for reporting by the Chief Executive Officer of our Company or, in the limited instances set forth below, for the approval of Shareholders. Under our Articles of Incorporation, the notice of annual Shareholders' meetings must be sent to each Shareholder along with the financial statements not less than 21 days before the date of such Shareholders' meetings. Under the Companies Act, annual Shareholders' meetings must be held annually and within three months following the financial year end of our Company.

In cases where the financial statements prepared in accordance with JGAAP have been approved by the Board satisfy the requirements prescribed by the ordinance of the Ministry of Justice as statements that accurately indicated the status of the assets and profits and losses of the Company in compliance with the Companies Act and our Articles of Incorporation, our Chief Executive Officer must report the contents of such financial statements to our Shareholders at the annual Shareholders' meeting. This reporting requirement will be satisfied (and approval of the Shareholders will not be required) provided that the following requirements provided in the applicable ordinance of the Ministry of Justice are met:

(1) the audit report prepared by the accounting auditor includes an unqualified opinion that the financial statements appropriately reflects in all material respects the assets and liabilities and the profit and loss of the Company in accordance with JGAAP;

(2) the audit report prepared by audit committee does not express the opinion that the method and result of the audit carried out by the accounting auditor is inappropriate;

(3) there is no dissenting opinion submitted to the audit committee that the method and result of the audit carried out by the accounting auditor is inappropriate;

(4) the audit report prepared by the audit committee has been delivered to (x) the relevant Director designated to receive such report or, if no such designation has been made, the Director overseeing the preparation of the financial statements (the "Designated Director"), and the accounting auditor, prior to the later of:

    (i) one week after delivery of the audit report prepared by the accounting auditor to the audit committee, which shall be delivered on the later of the following dates:

(a) four weeks after the accounting auditor receives the financial statements from our Company;

(b) one week after the accounting auditor receives attachments (*fuzoku meisaisho* 附属明細書) to the financial statements; or

(c) a date separately agreed upon by the Designated Director, and the accounting auditor as the deadline for the report of the audit report by the accounting auditor. If the accounting auditor fails to deliver the audit report on the dates set forth above, within one week of delivery of the audit report prepared by the accounting auditor;

(ii) a date separately agreed upon by the Designated Director and the audit committee as the deadline for delivery of the audit report by the audit committee.

After the conclusion of the Shareholders' meeting convened in connection with the JGAAP financials, the Company must either, pursuant to the applicable ordinance of Ministry of Justice, (i) provide public notice of our balance sheet and profit and loss statements prepared in accordance with JGAAP of the Company or the digest thereof; or (ii) disclose the balance sheet and profit and loss statements prepared in accordance with JGAAP of our Company on the internet for a period of five years. If the financial statements prepared in accordance with JGAAP fail to meet the requirements of the applicable ordinance of the Ministry of Justice, Shareholders' approval of such financials will be required to finalise them. If such Shareholders' approval cannot be obtained, in order to finalise the JGAAP financial statements, our Board of Directors may revise such financial statements so that they meet the requirements of the applicable ordinance of the Ministry of Justice, in which case Shareholders' approval will no longer be necessary. Alternatively, our Board of Directors may convene another Shareholders' meeting to obtain Shareholders' approval after amending the JGAAP financial statements in the event such amended financial statements still fail to meet the requirements of the applicable Ordinance of the Ministry of Justice.

(m) Share transfers and share exchanges

A share transfer (*kabushiki iten* 株式移転) is a transaction whereby one or more companies create a new company and transfer all of their outstanding shares to that new company (i.e., creation of a newly incorporated company as their 100% parent) in return for shares, bonds, share acquisition rights, bonds with share acquisition rights or other assets of the new company.

A share exchange (*kabushiki kokan* 株式交換) is a transaction whereby a stock company (*kabushiki-gaisha* 株式会社) transfers all of its outstanding shares to an existing stock company or a limited liability company (*godo-gaisha* 合同会社) (i.e., conversion of an existing stock company to a wholly-owned subsidiary of another existing stock company (*kabushiki-gaisha* 株式会社) or limited liability company (*godo-gaisha* 合同会社)) in return for shares, bonds, share acquisition rights, bonds with share acquisition rights or other assets of the company that will become a new parent of such stock company.

Our Company must seek a special resolution from the Shareholders if it conducts a share exchange unless:

(1) our Company is the squeezing entity (meaning an entity that intends to acquire the entire issued share capital of the target entity through the share exchange) in relation to the share exchange and the consideration to be paid to the shareholder of the counterparty (target entity) is 20% or less of the net assets of our Company;

(2) our company has 90% or more of the outstanding Shares of the counterparty; or

(3) the counterparty has 90% or more of the outstanding Shares of our Company.

Our Company must seek a special resolution from the Shareholders if we conducts a share transfer.

Japanese law requires that certain general information is included in a convocation notice for an extraordinary Shareholders' meeting, as well as certain other information, the content of which depends on the transaction(s) that is (or are) being contemplated. Regardless of the nature of the transaction any convocation notice must include (i) the date of the extraordinary Shareholders' meeting; (ii) the place of the extraordinary Shareholders' meeting and (iii) a list of matters to be resolved at the extraordinary Shareholders' meeting.

In addition to the general content requirements for convocation notices noted above, for convocation notices which relate to obtaining consent for share exchange contracts, the convocation notice must include the following key content requirements: (i) the reason for the proposed share exchange; (ii) the terms and conditions of the share exchange contract; (iii) the appropriateness of the consideration to be paid or received, (iv) the counterparty's financial documents (balance sheet/profit and loss statement/business report/auditor's report) of the latest financial year; and (v) the counterparty's material subsequent events after the end of the latest financial year.

Further, in addition to the general content requirements for convocation notices noted above, for convocation notices which relate to obtaining consent for share transfer plans, the convocation notice must also include the following key content requirements: (i) the reason for the proposed share transfer plan; (ii) the terms and conditions of the share transfer; (iii) our Company's financial documents (balance sheet/profit and loss statement/ business report/auditor's report) of the latest financial year; (iv) our Company's material subsequent events after the end of the latest financial year; and (v) our Articles of Incorporation.

3. SUMMARY OF MAIN JAPAN TAX ASPECTS RELEVANT TO THE SHAREHOLDERS OF THE COMPANY

The following is a summary of certain material Japan tax consequences for the Shareholders relating to the holding of and disposing of the Shares. No conclusion should be drawn with respect to issues not specifically addressed by this summary. The following description of Japanese law is based upon the Japanese law and regulations in effect and as interpreted by the National Tax Agency of Japan as at the date of this document and is subject to any amendments to the relevant laws (or their interpretation) later introduced, whether or not on a retroactive basis. It is not intended to be, nor should it be construed to be, legal or tax advice. You should therefore consult your own advisers as to the effect of any local laws, including Japanese tax law, to which you may be subject.

It is emphasised that none of our Company or our Directors can accept responsibility for any impact on the tax liabilities of, Shareholders resulting from their holding or disposal of or otherwise dealing in our Shares or exercising any rights attaching to them.

(a) Stamp duty

(i) Japanese stamp duty

Share transfers do not attract stamp duty in Japan. However, issue of a new Share Certificate in Japan would be subject to Japanese stamp duty (*inshizei* 印紙税) ranging from ¥200 to ¥20,000.

(b) Japanese withholding tax on dividend payments

See "Material Shareholders' Matters under Japanese Law — Dividends — Japanese withholding tax for dividend payments" in this document above.

(c) Capital gains tax

Japanese capital gains tax

As a general rule, gains derived from the sale outside Japan of our Shares by non-resident Shareholders or corporate Shareholders established outside Japan who have neither a permanent establishment in Japan nor a permanent representative in Japan to which the Shares are attributable are generally not liable to any Japanese income or corporate taxes, except for (i) any Shareholder who is interested in 25% or more in our Company's entire issued Shares at any time during the taxable year of sale or during two preceding years; and (ii) any Shareholder who transfers 5% or more of the issued Shares of our Company in the taxable year of sale.

The above taxation is subject to the application of relevant double tax treaties and, based on the provisions of the Hong Kong-Japan Tax Treaty, capital gains realised by a Shareholder, who is a resident or corporation in Hong Kong, will not be taxable under Japanese capital gains tax (even if such Shareholder is interested 25% or more in our Company's entire issued Shares at any time during the taxable year of sale or during two preceding years, and transfers 5% or more of the issued Shares of our Company in the taxable year of sale). The absence of capital gains taxation in Japan is not subject to any specific formalities and our Shareholders who are residents or corporations in Hong Kong are therefore not required to take any action in order to enjoy this exemption.

Individual Shareholders

Individual Shareholders who are residents in Japan who effect their dealings in our Shares through a recognised financial instruments business operator (*kinyuushouhintorihikigyousha tou* 金融商品取引業者等) are subject to capital gains tax in Japan at the following rates:

	Individual Shareholders
For the year ending 31 December 2012	10%
For the year ending 31 December 2013	10.147%
For the years ending 31 December 2037	20.315%
For the year ending 31 December 2038 and thereafter	20%

Individual Shareholders who are residents in Japan who do not effect their dealings in the Shares through a recognised financial instruments business operators (*kinyuushouhintorihikigyousha tou* 金融商品取引業者等) are generally subject to capital gains tax in Japan at around 20%.

Corporate Shareholders

Corporate Shareholders established in Japan are subject to capital gains tax in Japan at the following rate:

	Corporate Shareholders
For the financial year commencing before 1 April 2012 *(note)*	Approximately 40.7%
For the three financial years commencing on or after 1 April 2012 *(note)*	Approximately 38%
For the financial years thereafter *(note)*	Approximately 36%

Note: On the assumption that each financial year runs for a period of 12 months for the corporate Shareholders.

Hong Kong capital gains tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by a person carrying on a trade, profession or business in Hong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be subject to Hong Kong profit tax.

Currently, profits tax in Hong Kong is imposed on corporations at the rate of 16.5% and on unincorporated business at a maximum of 15.0%.

(d) Inherence and gift tax

Japanese inheritance tax and gift tax at progressive rates may be payable by an individual who has acquired ordinary shares of our Company as a legatee, heir or donee even though neither the acquiring individual nor the deceased nor donor is a Japanese resident.

[Date]

The Directors
DYNAM JAPAN HOLDINGS Co., Ltd.
2-25-1-702 Nishi-Nippori, Arakawa-ku
Tokyo, 116-0013
Japan

Dear Sirs/Madams,

Re: DYNAM JAPAN HOLDINGS Co., Ltd.
Review of anti-money laundering procedures, systems and controls

In accordance with our engagement letter dated 18 August 2011, we, [●], have executed an agreed set of due diligence review procedures of the financial procedures, systems and controls (including accounting and management systems, and anti-money laundering ("AML") measures) (collectively, the "Internal Control Systems") adopted by DYNAM JAPAN HOLDINGS Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") (the "Review").

Review Objective

The objective of the Review is to assess the adequacy of the Internal Control Systems of the Group and to identify if there are any significant control weaknesses and risks of non-compliance of the Internal Control Systems.

Scope and Period of Review

The scope of the Review includes the entity level controls (including AML measures adopted by the Group) and process level controls such as financial reporting and disclosure, cash receipt management, machine management, prizes management, pachinko ball management, pachinko hall management, expenditure, treasury management, human resources and payroll, taxes and IT general controls. Our internal control review and follow-up review covered the period from 1 January 2011 to 31 March 2012.

In addition to our Internal Control Review and Follow-up Review Report dated [Date], we are pleased to provide you with this report on AML measures adopted by the Group.

Controls Implemented by the Group on AML

The Board of Directors is responsible for designing, implementing and overseeing the Internal Control Systems, including the approval and implementation of AML measures.

The roles and responsibilities of the Board of Directors, Audit Committee and senior management with respect to the implementation of the Group's AML measures have been set forth. The Group has established the AML framework as well as various operational measures, e.g. internal controls over procurement of G-prizes, staff recruitment and training, etc., to strengthen its controls on AML procedures. The managers of pachinko halls are required to report any incidents or suspicious activities to the Group's headquarters, and whistleblowing procedures have also been established to receive and assess internal reports of suspicious activities. To ensure the full compliance of the AML framework, the Group has established internal audit departments which are responsible for (1) conducting periodic independent

reviews of the Group's compliance framework and the effectiveness of its AML measures; (2) checking and testing the compliance with the Group's AML measures; and (3) reporting any findings to the Audit Committee of the Company.

In addition to the above procedures, the Group's AML policies require:

- regular assessment of the risks of money laundering in the Group's operations and indicators of suspicious activity;
- a system of procedures and controls designed to detect and report suspicious activities in the Group's operations to the Group's headquarters and relevant authorities;
- annual background checks on all of the Group's business counterparties, which includes a check, with supporting documentation, on their representatives, officers, executive officers and shareholders, to identify and avoid any connections to anti-social forces;
- the Group to engage a corporate data research agency for any potential wholesaler with whom the Group intends to conduct transactions exceeding one million yen per year;
- wholesalers to deliver written declarations stating that they are independent from the prize buyers with whom they conduct business, and that their shareholders and directors and the prize buyers with whom they conduct business do not have any connections with anti-social forces;
- background checks, including with respect to criminal records, employment history and financial information, on the Group's senior management and potential new management members, to, among other things, identify and avoid any connections to anti-social forces and ensure high standards of integrity;
- the Group's internal audit team to visit and inspect each pachinko hall at least once every two months;
- Store Managers and Assistant Managers to rotate among different pachinko halls to prevent collusion among hall staff;
- use of surveillance cameras to record play or attempted tampering of pachinko and pachislot machines at the pachinko halls;
- regular training and awareness programs to keep staff apprised of and updated on the Group's AML policies, procedures and controls and job-specific information on indicators of suspicious activity;
- continuous monitoring of the Group's various IT systems, including the Group's Prize Management System, Management Information System and the Group's Hall Computers, as well as analysis of various financial and operating data, to monitor and detect unusual fluctuations that may indicate suspicious activity; and
- recording of customer identification information, and notification to the Group's headquarters, in connection with all transactions in which pachinko balls or pachislot tokens totaling ¥500,000 or more are exchanged for prizes (per transaction).

Review Procedures Performed by [●]

The procedures selected are based on our assessment of the Group's risks of material non-compliance with the AML measures. A summary of work performed to assess the Group's control procedures against AML measures is listed below:

1. Assessed control procedures on identification of money laundering risks and indicators of suspicious activity;

2. Assessed the Group's AML controls, communication and guidelines provided to staff;

3. Assessed control procedures on identifying, recording and reporting suspicious transactions which indicate any activity of money laundering;

4. Assessed the control procedures for G-prize procurement function (including control procedures relating to credit checks and anti-social forces checks conducted by the Group on its G-prize wholesalers); and

5. Assessed the control procedures on monitoring transactions in which pachinko balls and pachislot tokens totaling ¥500,000 or more are exchanged for prizes (per transaction).

Limitations

[●] did not perform any review of whether the Group had achieved actual compliance of any laws and regulations relating to AML, and the agreed scope of work under our engagement did not constitute an assurance engagement made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements. We report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Conclusion

No significant internal control deficiencies in the Group's AML measures have come to our attention during our review.

Restriction on Use and Distribution

This report is intended solely for the use of the Company in connection with [●]. This report may not be suitable for other purposes. This report is not intended to be, and should not be distributed to or used for any other purpose.

Yours faithfully,
[●]

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan under the Companies Act with limited liability on 20 September 2011. Our registered address in Japan is 2-25-1-702 Nishi-Nippori, Arakawa-ku, Tokyo 116-0013, Japan and we have established a place of business in Hong Kong at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong. Our Company was registered as an overseas company in Hong Kong under Part XI of the Companies Ordinance on 8 February 2012. Mr. Hisao KATSUTA has been appointed as our agent for the acceptance of service of process in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our registered place of business in Hong Kong (as set out above).

Our Company was incorporated in Japan with the registered company number 0115-01-017114 and accordingly our corporate structure and Articles of Incorporation are subject to the relevant laws and regulations in Japan.

2. Changes in share capital of our Company

As at the date of incorporation, the issued and paid-up share capital of our Company amounted to ¥5,000,000,000, corresponding to 31,542,518 Shares, all with nil par value.

Our Company does not have a specific value of authorised share capital as the concept of share with par value was abolished in 2001 when the Commercial Code was amended. As at the date of incorporation, the number of Shares authorised to be issued by our Company was 126,000,000 Shares.

Under the Companies Act, a company is allowed to carry cash paid by Shareholders for new Shares either as part of our capital reserves or as part of the paid-in capital account, on the condition that at least one half of such amount must be accounted for as paid-in capital.

Since the date of incorporation, the following changes have been made to our Company's issued share capital:

(a) Pursuant to the resolutions of our Board of Directors dated 5 June 2012, our Directors approved:

  (i) the increase of the number of Shares authorised to be issued by our Company from 126,000,000 Shares to 2,520,000,000 Shares; and

  (ii) the sub-division of every issued Share of nil par value in our share capital into 20 Shares of nil par value, such that the issued share capital of our Company increased from 31,542,518 Shares to 630,850,360 Shares. The sub-division took effect on 21 June 2012.

Save as aforesaid and as mentioned in the paragraphs headed "Extraordinary Shareholders' meeting of our Company dated 20 June 2012" below, there has been no alternation in the share capital of our Company since the date of our incorporation.

3. Changes in the share capital of our subsidiaries

Our subsidiaries are listed in the accountants' report, the text of which is set out in Appendix I to this document.

We set out below alterations in the share capital of the subsidiaries of our Company.

(a) Dynam

(i) Dynam was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan on 25 July 1967 as Sawa Shoji Co., Ltd.. At as the date of incorporation, the issued share capital of Dynam was ¥500,000, divided into 1,000 shares of ¥500 each.

(ii) As at the date of incorporation, the entire issued share capital of Dynam was owned by Mr. Yohei SATO.

(iii) On 22 January 1970, Mr. Sato and the Sato Family Members bequested from Mr. Yohei SATO the entire interests in Dynam.

(iv) Between 1983 and 1986, the issued share capital of Dynam increased from ¥91,800,000 to ¥190,356,000. The capital injection was made through four separate occasions of right issues, as a result of which the issued share capital of Dynam increased from 183,600 shares to 380,712 shares of ¥500 each.

(v) On 15 March 1988, the issued share capital of Dynam further increased from ¥190,356,000 to ¥228,427,000, divided into 456,854 shares of ¥500 each by way of rights issue.

(vi) On 23 December 1988, Dynam issued and allotted 26,300 shares to an Independent Third Party at a consideration of approximately ¥52.6 million in aggregate. Such consideration was calculated on the basis of ¥2,000 per share, with reference to Dynam's net asset value as at 31 March 1988. Half of the proceeds generated from this allotment was capitalised. The remaining half was accrued as Dynam's capital reserve (*shihon junbi kin* 資本準備金) as permitted under Japanese law which served as its general working capital as a mean to strengthen Dynam's financial position. Hence, the issued share capital of Dynam increased to ¥254,727,000, divided into 483,154 shares of ¥500 each.

(vii) On 16 August 1989, Dynam performed a stock split by dividing 483,154 shares of ¥500 each into 4,831,540 shares of ¥50 each.

(viii) On 25 February 1988, Dynam offered a tranche of convertible bonds with an aggregate principal amount of approximately ¥228 million for subscription by strategic investors. All of such convertible bonds were converted into ordinary shares of ¥50 each by 5 October 1989, resulting in an increase in Dynam's issued share capital from ¥254,727,000 to ¥483,154,000, divided into 9,400,080 shares of ¥500 each.

(ix) On 14 October 1989, Dynam issued and allotted 470,004 new shares to its existing shareholders at nil consideration. On the same date, the issued share capital of Dynam increased from ¥483,154,000 to ¥506,654,200 by way of capitalising its capital reserve (*shihon junbi kin* 資本準備金) of ¥23,500,200.

(x) On 18 November 1989, Dynam performed another round of rights issue, resulting an increase in its issued share capital from ¥506,654,200 to ¥630,030,150, divided into 12,337,603 shares of ¥50 each.

(xi) On 30 March 1990, Dynam issued and allotted 66,000 shares for subscription by strategic investors at a consideration of approximately ¥82.5 million. The consideration was calculated on a basis of ¥1,250 per share, with reference to

Dynam's net asset value as at 31 March 1989. Half of the proceeds generate from this allotment was capitalised. The remaining half was accrued as Dynam's capital reserve (*shihon junbi kin* 資本準備金) as permitted under Japanese law which served as its general working capital as a mean to strengthen Dynam's financial position. As a result, the issued share capital of Dynam increased from ¥630,030,150 to ¥671,280,160, divided into 12,403,603 shares of ¥50 each.

(xii) On 28 September 1990, Dynam capitalised ¥28,719,850 from its capital reserve (*shihon junbi kin* 資本準備金), as a result of which the issued share capital of Dynam increased from ¥671,280,150 to ¥700,000,000.

(xiii) On 1 October 1990, Dynam issued and allotted 1,240,360 new shares to its existing shareholders at nil consideration.

(xiv) On 1 November 1991, Dynam issued and allotted 1,000,000 shares for subscription by strategic investors at a consideration of approximately ¥1,320 million. The consideration was calculated on a basis of ¥1,320 per share, with reference to Dynam's net asset value as at 31 March 1991. Half of the proceeds generated from this allotment was capitalised. The remaining half was accrued as Dynam's capital reserve (*shihon junbi kin* 資本準備金) as permitted under Japanese law which served as its general working capital as a mean to strengthen Dynam's financial position. As a result, the issued share capital of Dynam increased from ¥700,000,000 to ¥1,360,000,000.

(xv) On 1 April 1992, Dynam's issued share capital increased from ¥1,360,000,000 to ¥1,500,000,000. This capital injection was made by way of capitalising its statutory reserve of ¥140,000,000. On the same date, Dynam issued and allotted 1,464,396 new shares to its existing shareholders at nil consideration.

(xvi) On 6 December 1996, Dynam issued and allotted 170,000 shares for subscription by strategic investors at a consideration of approximately ¥204 million. The consideration was calculated on a basis of ¥1,200 per share, with reference to Dynam's net asset value as at 31 March 1996. The entire proceeds generated from this allotment was capitalised. As a result, the issued share capital of Dynam increased from ¥1,500,000,000 to ¥1,704,000,000, divided into 16,278,359 shares of ¥50 each.

(xvii) On 6 December 1996, Dynam capitalised ¥296,000,000 from its capital reserve (*shihon junbi kin* 資本準備金). As a result, the issued share capital of Dynam increased from ¥1,704,000,000 to ¥2,000,000,000.

(xviii) On 29 January 2002, the issued share capital of Dynam further increased to ¥2,500,000,000. This capital injection was made by way of capitalising its capital reserve (*shihon junbi kin* 資本準備金) and retained earnings reserve.

(xix) On 1 October 2001, the par value of shares in Dynam was changed from ¥50 each to nil, as a result of the abolition of the concept of shares with par value when the Commercial Code was amended in 2001.

(xx) On 29 March 2002, Dynam issued and allotted 16,278,359 new shares to its existing shareholders at nil consideration. Following the completion of this allotment, the issued share capital of Dynam became ¥2,500,000,000 divided into 32,556,718 shares of nil par value.

(xxi) On 27 June 2002, the issued share capital of Dynam further increased to ¥5,000,000,000. This capital injection was made by capitalising its Distributable Reserve of ¥2,500,000,000.

(xxii) On 25 August 2006, Dynam became a wholly-owned subsidiary of DYH by virtue of the 2006 Restructuring.

(xxiii) On 20 September 2011, the entire issued share capital of Dynam was transferred to our Company pursuant to our Reorganisation.

(xxiv) There has been no change in the share capital of Dynam during the Relevant Period.

(b) Dynam Data

(i) Dynam Data was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan on 31 October 2003. At as the date of incorporation, the issued share capital of Dynam Data was ¥10,000,000, divided into 200 shares of nil par value. The number of shares authorised to be issued by Dynam Data was 1,600 shares.

(ii) As at the date of incorporation, the entire issued share capital of Dynam Data was owned by Dynam Investment.

(iii) On 1 December 2006, the entire issued share capital of Dynam Data was transferred from Dynam Investment to DYH by virtue of the 2006 Restructuring.

(iv) On 20 September 2011, the entire issued share capital of Dynam Data was transferred to our Company pursuant to our Reorganisation.

(v) There has been no change in the share capital of Dynam Data during the Relevant Period.

(c) Dynam Land

(i) Dynam Land was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan on 31 October 2003. At as the date of incorporation, the issued share capital of Dynam Land was ¥20,000,000, divided into 400 shares of nil par value. The number of shares authorised to be issued by Dynam Land was 4,000 shares.

(ii) As at the date of incorporation, the entire issued share capital of Dynam Land was owned by Dynam Investment.

(iii) On 1 December 2006, the entire issued share capital of Dynam Land was transferred from Dynam Investment to DYH by virtue of the 2006 Restructuring.

(iv) On 24 March 2010, the issued share capital of Dynam Land increased from ¥20,000,000 to ¥520,000,000, divided into 1,400 shares of nil par value, by creating 1,000 new shares, all of which were allotted to DYH.

(v) On 10 September 2010, the issued share capital of Dynam Land increased from ¥520,000,000 to ¥1,020,000,000 divided into 2,400 shares of nil par value, by creating 1,000 new shares, all of which were allotted to DYH.

(vi) On 20 September 2011, the entire issued share capital of Dynam Land was transferred to our Company pursuant to our Reorganisation.

(vii) There has been no change in the share capital of Dynam Land since 10 September 2010.

(d) Dynam Advertisement

(i) Dynam Advertisement was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan on 1 July 2010. At as the date of incorporation, the issued share capital of Dynam Advertisement was ¥30,000,000, divided into 600 shares of nil par value. The number of shares authorised to be issued by Dynam Advertisement was 6,000 shares.

(ii) As at the date of incorporation, the entire issued share capital of Dynam Advertisement was owned by DYH.

(iii) On 20 September 2011, the entire issued share capital of Dynam Advertisement was transferred to our Company pursuant to our Reorganisation.

(iv) There has been no change in the share capital of Dynam Advertisement during the Relevant Period.

(e) P Trading

(i) P Trading was incorporated as a stock company (*kabushiki-gaisha* 株式会社) on 1 July 2010. As at the date of incorporation, the issued share capital of P Trading was ¥30,000,000, divided into 600 shares of nil par value. The number of shares authorised to be issued by P Trading was 6,000 shares.

(ii) As at the date of incorporation, the entire issued share capital of P Trading was owned by DYH.

(iii) On 20 September 2011, the entire issued share capital of P Trading was transferred to our Company pursuant to our Reorganisation.

(iv) There has been no change in the share capital of P Trading during the Relevant Period.

(f) Shinrainomori

(i) Shinrainomori was incorporated as a stock company (*kabushiki-gaisha* 株式会社) on 3 December 2008. As at the date of incorporation, the issued share capital of Shinrainomori was ¥10,000,000, divided into 200 shares. The number of shares authorised to be issued by Shinrainomori was 10,000 shares.

(ii) As at the date of incorporation, the entire issued share capital of Shinrainomori was owned by DYH.

(iii) On 1 December 2011, the entire issued share capital of Shinrainomori was transferred to our Company pursuant to our Reorganisation.

(iv) There has been no change in the share capital of Shinrainomori during the Relevant Period.

(g) Kanto Daido

(i) Kanto Daido was incorporated as a stock company (*kabushiki-gaisha* 株式会社) on 22 January 1992. As at the date of incorporation, the issued share capital of Kanto Daido was ¥10,000,000, divided into 200 shares of nil par value. The number of shares authorised to be issued by Kanto Daido was 800 shares.

(ii) As at the date of incorporation, the largest shareholder of Kanto Daido was Mr. Kosuke OKA (岡孝亮).

(iii) On 27 May 2008, the issued share capital of Kanto Daido increased from ¥10,000,000 to ¥30,000,000, divided into 600 shares of nil par value, by creating 400 new shares, all of which were allotted to Mr. Kosuke OKA (岡孝亮).

(iv) On 29 June 2008, the number of shares authorised to be issued by Kanto Daido increased from 800 shares to 2,000 shares.

(v) On 1 July 2008, the entire issued share capital of Kanto Daido was acquired by P Leasing at a consideration of approximately ¥20 million.

(vi) On 1 July 2008, the issued share capital of Kanto Daido increased from ¥30,000,000 to ¥40,000,000, divided into 700 shares of nil par value.

(vii) On 31 August 2008, the issued share capital of Kanto Daido reduced from ¥40,000,000 to ¥20,000,000 in order to make available ¥20 million of capital reserve to compensate for its operational loss.

(viii) On 19 March 2009, the issued share capital of Kanto Daido increased from 20,000,000 to ¥50,000,000, divided into 1,300 shares of nil par value, by creating 600 new shares, all of which were allotted to P Leasing.

(ix) On 1 December 2011, the entire issued share capital of Kanto Daido was transferred to P Trading pursuant to our Reorganisation.

(x) There has been no change in the share capital of Kanto Daido since 19 March 2009.

(h) Cabin Plaza

(i) Cabin Plaza was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan on 25 May 1988. As at the date of incorporation, the issued share capital of Cabin Plaza was ¥10,000,000, divided into 200 shares of nil par value. The number of shares authorised to be issued by Cabin Plaza was 2,000 shares.

(ii) As at 31 March 2009, the entire issued share capital of Cabin Plaza was owned by Mr. Sang-gon KIM (金相坤) and Mrs. Kung San BUN (文君仙).

(iii) On 1 April 2009, the entire issued share capital of Cabin Plaza was acquired by DYH at a consideration of approximately ¥1 billion.

(iv) On 20 September 2011, the entire issued share capital of Cabin Plaza was transferred to our Company pursuant to our Reorganisation.

(v) There has been no change in the share capital of Cabin Plaza during the Relevant Period.

(i) Daikokuten

(i) Daikokuten was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan on 12 March 1977. As at the date of incorporation, the issued share capital of Daikokuten was ¥10,000,000, divided into 20,000 shares of nil par value. The number of shares authorised to be issued by Daikokuten was 64,000 shares.

(ii) As at 30 November 2009, the entire issued share capital of Daikokuten was owned by Ichiroku Shoji Co., Ltd.* (株式会社一六商事).

(iii) On 1 December 2009, the entire issued share capital of Daikokuten was acquired by DYH at a consideration of approximately ¥350 million.

(iv) On 19 March 2010, the issued share capital of Daikokuten increased from ¥10,000,000 to ¥95,000,000, divided into 37,000 shares of nil par value.

(v) On 20 September 2011, the entire issued share capital of Daikokuten was transferred to our Company pursuant to our Reorganisation.

(vi) There has been no change in Daikokuten's share capital since 19 March 2010.

(j) Okuwa Japan

(i) Okuwa Japan was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan on 3 July 1996. As at the date of incorporation, the issued share capital of Okuwa Japan was ¥30,000,000, divided into 600 shares of nil par value. The number of shares authorised to be issued by Okuwa Japan was 2,400 shares.

(ii) As at 31 May 2010, the entire issued share capital of Okuwa Japan was owned by Mr. Atsushi OKUWA (大桑淳) and Mrs. Satomi OKUWA (大桑里美).

(iii) On 1 June 2010, the entire issued share capital of Okuwa Japan was acquired by DYH at a consideration of approximately ¥30 million.

(iv) On 21 January 2011, the number of shares authorised to be issued by Okuwa Japan increased from 2,400 shares to 10,000 shares.

(v) On 27 January 2011, the issued share capital of Okuwa Japan increased from ¥30,000,000 to ¥200,000,000, divided into 7,400 shares of nil par value.

(vi) On 20 September 2011, the entire issued share capital of Okuwa Japan was transferred to our Company pursuant to our Reorganisation.

(vii) There has been no change in the share capital of Okuwa Japan since 27 January 2011.

(k) Shinrainomori Association

(1) Shinrainomori Association is a general incorporated association (*ippan shadan houjin* 一般社団法人) organised under the GIA/GIF Law in Japan without the concept of share capital.

(2) The initial fund of ¥1 million, which was injected by Dynam on 3 December 2008, does not confer equity ownership and management influence.

(3) There has been no additional fund injection into Shinrainomori Association since 3 December 2008.

4. Extraordinary Shareholders' meeting of our Company dated 20 June 2012

Pursuant to the resolutions passed by our Shareholders at an extraordinary Shareholders' meeting on 20 June 2012, among other things:—

(a) the Articles of Incorporation were adopted in substitution for and to the exclusion of the existing articles of incorporation of our Company with effects from [●];

[●]

5. Reorganisation

The companies comprising our Group underwent the Reorganisation and our Company became the holding company of our Group. Our Reorganisation involved the following major steps:

(i) Our Company was incorporated as a stock company (*kabushiki-gaisha* 株式会社) in Japan on 20 September 2011. The initial number of Shares authorised to be issued by our Company was 126,000,000 Shares. As at the date of incorporation, the issued share capital of our Company was ¥5,000,000,000, divided into 31,542,518 Shares of nil par value.

(ii) On 20 September 2011, 31,542,518 Shares of nil par value, credited as fully paid, was allotted and issued to DYH as our initial Shareholder.

(iii) On 20 September 2011, DYH declared and distributed a dividend in specie by way of distributing 31,542,518 Shares, representing the entire issued share capital of our Company, to the DYH Shareholders whose names appeared on the register of members of DYH on 20 September 2011, pro-rata to their then shareholding in DYH, namely:

Name of Shareholders	Number of Shares (approximate shareholding percentage in our Company)
Mr. Sato	8,126,128 (25.7)%
Rich-O	4,790,500 (15.2)%
One Asia	4,000,000 (12.7)%
Sato Family Members	12,416,828 (39.4)%
Director Shareholders	54,900 (0.2)%
Employee Shareholders	1,175,562 (3.7)%
Institutional Shareholders	978,600 (3.1)%

(iv) On 20 September 2011, DYH transferred to our Company 32,556,718 shares in Dynam, 200 shares in Cabin Plaza, 37,000 shares in Daikokuten, 7,400 shares in Okuwa Japan, 2,400 shares in Dynam Land, 200 shares in Dynam Data, 600 shares in P Trading and 600 shares in Dynam Advertisement, representing the entire issued share capital of each of Dynam, Cabin Plaza, Daikokuten, Okuwa Japan, Dynam Land, Dynam Data, P Trading, and Dynam Advertisement, respectively.

(v) On 1 December 2011, DYH transferred 200 shares in Shinrainomori, representing the entire issued share capital of Shinrainomori at that time, to our Company at a consideration of ¥9 million. On the same date, P Leasing transferred 1,300 shares in Kanto Daido, representing the entire issued share capital of Kanto Daido at that time, to P Trading at a consideration of ¥49 million. Following the completion of these transfers, our Company became the holding company of our Group.

See the section headed "History, Development and Reorganisation — Our Corporate development — Reorganisation" in this document for more details of the Reorganisation arrangements undergone by our Company.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are, or may be, material:

(a) an equity transfer agreement dated 21 November 2011 entered into between our Company, DYH and Shinrainomori, pursuant to which DYH transferred 200 Shares in Shinrainomori, being the entire issued share capital of Shinrainomori at that time, to our Company at a consideration of ¥9 million, and such transfer to take effect on 1 December 2011;

(b) an equity transfer agreement dated 21 November 2011 entered into between P Trading, P Leasing and Kanto Daido, pursuant to which P Leasing transferred 1,300 Shares in Kanto Daido, being the entire issued share capital of Kanto Daido at that time, to P Trading at a consideration of ¥49 million, and such transfer to take effect on 1 December 2011;

(c) the Deed of Non-Competition;

(d) the Deed of Indemnity; and

(e) [●].

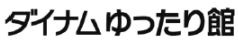
2. Our material intellectual property rights

As at the Latest Practicable Date, our Group had 100 registered trademarks in Japan and 28 pending trademark applications in Japan, Hong Kong and the PRC. Our registered trademarks all relate to our pachinko operations. We held seven patents and had two pending patent applications as at the Latest Practicable Date, for various hall equipment used in our pachinko operations. We held nine design rights and one utility model right relating to various equipment used in our pachinko operations and we owned 14 domain names and three copyrights as at the Latest Practicable Date.

Set out below is a summary of our material intellectual property rights. Our material intellectual property rights were determined by our Directors on the basis of their materiality to our business operation, financial position and prospects.

(a) Trademark

As at the Latest Practicable Date, we were the registered owner of the following trademarks which, in the opinion of our Directors, are material to our business:

Trademark	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
	Japan	41	4230027	14 January 1999	14 January 2019
	Japan	41	4230028	14 January 1999	14 January 2019
	Japan	9, 28, 41	5054137	15 June 2007	15 June 2017
	Japan	41	5178357	07 November 2008	07 November 2018
	Japan	41	5178354	07 November 2008	07 November 2018
	Japan	41	5178355	07 November 2008	07 November 2018
	Japan	41	5178356	07 November 2008	07 November 2018
キャビンプラザ CABIN PLAZA	Japan	41	5327275	04 June 2010	04 June 2020
信頼の森	Japan	9, 11, 16, 19, 28, 29, 30, 31, 35, 36, 37, 39, 40, 41, 42, 43, 44	5264236	11 September 2009	11 September 2019
	Japan	9, 11, 16, 19, 28, 29, 30, 31, 35, 36, 37, 39, 40, 41, 42, 43, 44	5289626	25 December 2009	25 December 2019
	Japan	9, 11, 16, 19, 28, 29, 30, 31, 35, 36, 37, 39, 40, 41, 42, 43, 44	5289627	25 December 2009	25 December 2019
	Japan	41	5286394	11 December 2009	11 December 2019
	Japan	28	5463629	20 January 2012	20 January 2022
やすみ時間	Japan	16, 28, 41	5325590	28 May 2010	28 May 2020

Trademark	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
	Japan	16, 28, 41	5325591	28 May 2010	28 May 2020
	Japan	28	5457398	16 December 2011	16 December 2021
	Japan	35, 36	5495392	25 May 2012	25 May 2022

As of the Latest Practicable Date, we had applied for the registration of the following trademarks which, in the opinion of our Directors, are material to our business:

Trademark	Place of Application	Class	Application Date	Application Number
	Hong Kong	35, 36	18 November 2011	302089918
信頼の森	Hong Kong	28, 41	18 November 2011	302089873
	Hong Kong	28, 41	18 November 2011	302089882
	Hong Kong	28, 41	18 November 2011	302089891
	Hong Kong	28, 41	18 November 2011	302089927
	Hong Kong	28, 41	18 November 2011	302089936
	Hong Kong	41	18 November 2011	302089945
キャビンプラザ CABIN PLAZA	Hong Kong	41	18 November 2011	302089954
DYNAM JAPAN HOLDINGS Co., Ltd.	Hong Kong	35, 36	28 March 2012	302204829
大樂門(日本)控股有限公司	Hong Kong	35, 36	28 March 2012	302204838
DYNAM JAPAN HOLDINGS Co., Ltd.	PRC	35	30 March 2012	10702643
DYNAM JAPAN HOLDINGS Co., Ltd.	PRC	36	30 March 2012	10702644
大乐门(日本)控股有限公司	PRC	35	30 March 2012	10702645
大乐门(日本)控股有限公司	PRC	36	30 March 2012	10702646
	PRC	28	30 March 2012	10702653
	PRC	41	30 March 2012	10702654
	PRC	35	30 March 2012	10702655
	PRC	36	30 March 2012	10702656

(b) Patent

As at the Latest Practicable Date, we had been granted the following patents which, in the opinion of our Directors, are material to our business:

	Type of Patent	Patent Description	Place of registration	Patent Number	Registration Date	Expiry Date
1.	Game machine management/ instruction system* (遊技台管理指示システム)	Game machine management/ instructions system which can conduct management instructions cross-departmental of all pachinko halls* (全店舗に横断的な管理指示が行える遊技台管理指示システム)	Japan	4090220	07 March 2008	29 June 2021
			Taiwan	I266998	21 November 2006	27 June 2022
			PRC	ZL 02 8 08329.6	30 May 2002 (Application date) 22 March 2006 (Date of announcement of grant)	30 May 2022
2.(1)	Mechanism of installing side board for game machines* (遊技機用幕板の取付機構)	Simplified mechanism for installing open and shut board* (開閉幕板の取付を簡単にしたもの)	Japan	4220148	21 November 2008	18 October 2021
3.(2)	Supporting platform for game machine island* (遊技機島の支持台)	Base unit and pole structure* (ベースユニット及び柱構造)	Japan	4275879	13 March 2009	18 October 2021
4.(3)	Parlour chairs* (パーラーチェア)	Detachable Parlour chairs from floors* (床面から自在に装脱着が可能なパーラーチェア)	Japan	4190774	26 September 2008	01 March 2022
5.(4)	Level adjustment mechanism for game machine frames* (遊技機用フレームのレベル調整機構)	The mechanism which can adjust the level of the game machine frames without taking each of the game machines apart from game machine insulars, even after the game machines are installed in the game machine island* (遊技島完成後も遊技島を解体することなくレベル調整できるもの)	Japan	4315670	29 May 2009	26 November 2022

	Type of Patent	Patent Description	Place of registration	Patent Number	Registration Date	Expiry Date
6.	Measuring equipment* (測定器)	The equipment which can check whether measuring total touch to appropriate place of measured objects during measurement* (操作しながら、測定器が被測定物の測定部位に対し適正に接触しているか確認できる測定器)	Japan	4643548	10 December 2010	30 November 2026
7.	Hand cart* (運搬用台車)	Hand cart that enables the detection easy in the event the items stored therein cannot be easily altered a changed or if such is suspected to have been attend on changed* (運搬用台車の収納物を簡単に改変・改造できなくする、または改変・改造されたおそれがある場合は、そのことが容易に分かる運搬用台車)	Japan	4694522	04 March 2011	15 March 2027

(1) This patent is co-owned with Itoki Corporation, an Independent Third Party. There is no agreement on the terms and conditions on co-ownership of this patent. According to our Japan Legal Adviser, under the Patent Act, each co-owner of a patent may use such patent by itself but may not transfer or license all or a part of its patent right to any third party without consent of the other co-owner. Co-ownership is arranged because the patent was created and developed jointly with co-owner.

(2) This patent is co-owned with Itoki Corporation, an Independent Third Party. There is no agreement on the terms and conditions on co-ownership of this patent. According to our Japan Legal Adviser, under the Patent Act, each co-owner of a patent may use such patent by itself but may not transfer or license all or a part of its patent right to any third party without consent of the other co-owner. Co-ownership is arranged because the patent was created and developed jointly with co-owner.

(3) This patent is co-owned with Itoki Corporation, an Independent Third Party. There is no agreement on the terms and conditions on co-ownership of this patent. According to our Japan Legal Adviser, under the Patent Act, each co-owner of a patent may use such patent by itself but may not transfer or license all or a part of its patent right to any third party without consent of the other co-owner. Co-ownership is arranged because the patent was created and developed jointly with co-owner.

(4) This patent is co-owned with Itoki Corporation, an Independent Third Party. There is no agreement on the terms and conditions on co-ownership of this patent. According to our Japan Legal Adviser, under the Patent Act, each co-owner of a patent may use such patent by itself but may not transfer or license all or a part of its patent right to any third party without consent of the other co-owner. Co-ownership is arranged because the patent was created and developed jointly with co-owner.

As of the Latest Practicable Date, we had applied for the registration of the following patents which, in the opinions of our Directors, are material to our business:

	Type of Patent	Patent Description	Place of Registration	Application Date	Application Number
1.(1)	Rack between game machines* (台間ラック)	Rack between game machines structured simply to alleviated factors that cause disturbing to players* (遊技者に対する障害要因を低減しつつも簡易な構成の台間ラック)	Japan	27 March 2009	*Tokugan*特願 2009-080335
2.(2)	Fixing bracket for game machine frames* (遊技機枠固定具)	Fixing tool for game machine frames which fixes game machines easier and saves spaces* (省スペース化を図りながらも簡易に遊技機を固定させ得る遊技機枠固定具)	Japan	14 July 2010	*Tokugan*特願 2010-159922

(1) This patent is co-owned with Itoki Corporation and Cerno Corporation, Independent Third Parties. There is no agreement on the terms and conditions on co-ownership of this patent. According to our Japan Legal Adviser, under the Patent Act, each co-owner of a patent may use such patent by itself but may not transfer or license all or a part of its patent right to any third party without consent of the other co-owner. Co-ownership is arranged because the patent was created and developed jointly with co-owners.

(2) This patent is co-owned with Itoki Corporation, Cerno Corporation, and Shinno Epack Co., Ltd., Independent Third Parties. There is no agreement on the terms and conditions on co-ownership of this patent. According to our Japan Legal Adviser, under the Patent Act, each co-owner of a patent may use such patent by itself but may not transfer or license all or a part of its patent right to any third party without consent of the other co-owner. Co-ownership is arranged because the patent was created and developed jointly with co-owners.

(c) Domain name

As at the Latest Practicable Date, we were the registered owner of the following domain names which, in the opinion of our Directors, are material to our business:

Domain Name	Expiry date
dynam.co.jp	31 January 2013
dyjh.co.jp	30 September 2012

The contents of the website(s), registered or licensed, do not form part of this document. We currently intend to renew these two domain names before their respective expiry dates.

Except as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are or may be material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT OUR GROUP'S SUBSIDIARIES IN JAPAN

Our Company has the following subsidiaries established in Japan, the basic information of which as at the Latest Practicable Date is set out below:

1. Dynam

Nature	stock company (*kabushiki-gaisha* 株式会社)
Date of incorporation	25 July 1967
Commencement date of business	25 July 1967
Issued share capital	¥5,000,000,000
Registration number	0115-01-007357
Number of shares authorised to be issued	130,000,000 shares
Attributable interest of our Group	100%
Scope of business	(1) management of recreation halls; management game centres; management of restaurants, apartments, stores for rent and offices for rent (2) training education and language teachers for language and conversation (3) agency service for mediation for foreign school attendance and studying abroad and related procedures (4) development and sale of language materials (videos, tapes, and books) (5) non-life insurance agency operations (6) life insurance agency operations (7) compulsory automobile liability insurance agency operations (8) any and all incidental upon any of the above activities
Directors	Mr. Kohei SATO (佐藤公平) Mr. Takashi SATO (佐藤敬) Mr. Mamoru SAITO (斉藤守) Mr. Haruhiko MORI (森治彦) Mr. Hiroshi MIWA (三輪博) Mr. Makoto SAKAMOTO (坂本誠)
Shareholder	our Company

2. Cabin Plaza

Nature	stock company (*kabushiki-gaisha* 株式会社)
Date of incorporation	25 May 1988
Commencement date of business	25 May 1988

Issued share capital	¥10,000,000
Registration number	3800-01-019664
Number of shares authorised to be issued	2,000 shares
Attributable interest of our Group	100%
Scope of business	operating amusement halls and all other relevant operations
Director	Mr. Masaaki HORIGUCHI (堀口昌章)
Shareholder	our Company

3. Daikokuten

Nature	stock company (*kabushiki-gaisha* 株式会社)
Date of incorporation	12 March 1977
Commencement date of business	12 March 1977
Issued share capital	¥95,000,000
Registration number	0900-01-004818
Number of shares authorised to be issued	64,000 shares
Attributable interest of our Group	100%
Scope of business	operating amusement halls and all other relevant operations
Director	Mr. Kuniyuki ISHIZUKA (石塚邦幸)
Shareholder	our Company

4. Okuwa Japan

Nature	stock company (*kabushiki-gaisha* 株式会社)
Date of incorporation	3 July 1996
Commencement date of business	3 July 1996
Issued share capital	¥200,000,000
Registration number	1900-01-010013
Number of shares authorised to be issued	10,000 shares
Attributable interest of our Group	100%
Scope of business	operating amusement halls and all other relevant operations
Director	Mr. Kanetaka SATOH (佐藤金孝)
Shareholder	our Company

5. Dynam Data

Nature	stock company (*kabushiki-gaisha* 株式会社)
Date of incorporation	31 October 2003
Commencement date of business	31 October 2003
Issued share capital	¥10,000,000
Registration number	0118-01-023789
Number of shares authorised to be issued	1,600 shares
Attributable interest of our Group	100%
Scope of business	(1) contract work and commissioned work of calculation and payment of salaries and retirement benefits, management of corporate pension, management of social insurance and labour insurance, management of company dormitory and company housing, occupational safety and health management, recruitment, corporate personnel affairs and labour control and welfare related affairs (2) contract work and commissioned work of corporate accounting related work such as taxation and account (3) contract work and commissioned work of documentation, printing, receipt and delivery of documents and general work of other companies (4) computer system development related to the previous paragraph, installation, operation and maintenance (5) employment placement (6) labour despatch service (7) information processing and information provision services (8) non-life insurance agency (9) life insurance agency (10) automobile insurance agency (11) all businesses incidental to or related to each paragraph
Director	Mr. Kenichi ASAI (浅井健一)
Shareholder	our Company

6. Dynam Land

Nature	stock company (*kabushiki-gaisha* 株式会社)

Date of incorporation	31 October 2003
Commencement date of business	31 October 2003
Issued share capital	¥1,020,000,000
Registration number	0115-01-010575
Number of shares authorised to be issued	4,000 shares
Attributable interest of our Group	100%
Scope of business	(1) management, rent, sale and purchase, brokerage and evaluation of real estate (2) commissioned work of management and rent of real estate (3) consulting regarding rent of real estate (4) information gathering, information analysis and information provision service regarding real estate (5) moving broker (6) non-life insurance agency (7) life insurance agency (8) automobile insurance agency (9) all businesses incidental to or related to each of the previous paragraphs
Director	Mr. Mitsuyuki SEKI (関光幸)
Shareholder	our Company

7. P Trading

Nature	stock company (*kabushiki-gaisha* 株式会社)
Date of incorporation	1 July 2010
Commencement date of business	1 July 2010
Issued share capital	¥30,000,000
Registration number	0115-01-015964
Number of shares authorised to be issued	6,000 shares
Attributable interest of our Group	100%
Scope of business	(1) gathering, analysing and offering information about amusement machines in halls and manage information in an integrated manner (2) gathering, analysing and offering marketing information about amusement machines

		(3) planning, developing, selling and maintaining private brand machines (4) evaluating capability of amusement machines (5) selling and purchasing machines, peripheral equipments of amusement machines and other hall related equipments (6) creating application documents regarding transfer of amusement machines and process applications (7) developing, operating and maintaining amusement machine control system and offer system service (8) acting as an intermediary or an agent of each of the preceding items, and conducting the research or consulting thereof (9) all businesses incidental to or related to each of the preceding items
	Director	Mr. Toshio SOGA (曽我稔夫)
	Shareholder	our Company
8.	**Dynam Advertisement**	
	Nature	stock company (*kabushiki-gaisha* 株式会社)
	Date of incorporation	1 July 2010
	Commencement date of business	1 July 2010
	Issued share capital	¥30,000,000
	Registration number	0115-01-015963
	Number of shares authorised to be issued	6,000 shares
	Attributable interest of our Group	100%
	Scope of business	(1) comprehensive advertisement agency (2) research and planning of advertising media (3) planning and production of advertisement and sale promotion (4) contingent businesses and other related business on the above
	Director	Mr. Shigeru FUKUMA (福間茂)
	Shareholder	our Company
9.	**Kanto Daido**	
	Nature	stock company (*kabushiki-gaisha* 株式会社)
	Date of incorporation	22 January 1992

Commencement date of business	22 January 1992
Issued share capital	¥50,000,000
Registration number	0105-01-002705
Number of shares authorised to be issued	2,000 shares
Attributable interest of our Group	100%
Scope of business	(1) designing and selling automatic supply device for pachinko machines (2) selling parts for pachinko ball machines, exchange machines, and calculator (3) designing and constructing shops (4) planning and constructing interior and exterior of shops (5) selling pachinko machines (6) trading second-hand pachinko machines (7) all other relevant operations of above
Directors	Mr. Taro OKA (岡太郎) Mr. Masatoshi YAMAZAKI (山崎昌利) Mr. Takahiko FUJII (藤井孝彦)
Shareholder	P Trading

10. Shinrainomori

Nature	stock company (*kabushiki-gaisha* 株式会社)
Date of incorporation	3 December 2008
Commencement date of business	3 December 2008
Issued share capital	¥10,000,000
Registration number	0115-01-014420
Number of shares authorised to be issued	10,000 shares
Attributable interest of our Group	100%
Scope of business	(1) purchasing, researching and developing, producing, selling, transporting, installing, repairing and maintaining, renting, leasing, and importing and exporting regarding pachinko machines, second-hand pachinko machines, parts of anti-legal machineries, peripheral equipments and accessory parts (2) planning, designing, and constructing regarding interior and exterior of amusement halls

	(3) purchasing, researching and developing, producing, selling, transporting, managing stock and importing and exporting regarding foods which are provided in the halls and prizes including household products (4) collecting, transporting and disposing general and industrial wastes (5) training and planning event with regard to contributing development of the amusement industry (6) conducting marketing research to hall and pachinko machines related business operators, providing business plan, designing halls, and training for management of pachinko halls (7) planning and producing advertisement (8) acting as mediator, agent, conducting research, providing consultation in relating to the above (9) all other matters relating to the above
Directors	Mr. Yoji SATO (佐藤洋治) Mr. Kohei SATO (佐藤公平)
Shareholder	our Company

11. Shinrainomori Association

Nature	general incorporated association *(ippan shadan houjin* 一般社団法人)
Date of establishment	3 December 2008
Date of commencement of business	3 December 2008
Initial fund	¥1,000,000
Registration number	0115-05-001319
Attributable voting rights of our Group	100% (1)
Directors	Mr. Yoji SATO (佐藤洋治) Mr. Kohei SATO (佐藤公平)
Members	Dynam Daikokuten Cabin Plaza Okuwa Japan (1)

(1) Shinrainomori Association is a general incorporated association *(ippan shadan houjin* 一般社団法人) organised under the GIA/GIF Law in Japan which does not involve the concept of shareholding and equity interests. Voting rights in Shinrainomori Association are conferred to its members, which, as at the Latest Practicable Date, comprised of Dynam, Cabin Plaza, Daikokuten and Okuwa Japan, each being a wholly-owned subsidiary of our Company. Our Company, through these companies, controlled the entire voting rights in Shinrainomori Association and is entitled to appoint all of its directors.

D. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Particulars of Directors' service agreements

(a) Mr. Sato, our executive Director, has entered into a service agreement with our Company for a term of one year commenced on 20 June 2012 which shall be terminated in accordance with the provisions of the service agreement by either party giving to the other not less than 30 days prior notice in writing. The annual remuneration entitled by Mr. Sato is as follows:

	¥
Executive Director	
Yoji SATO (佐藤洋治)	33,600,000

(b) Mr. Ushijima, our non-executive Director, has entered into a service agreement with our Company for a term of one year commenced on 20 June 2012 which shall be terminated in accordance with the provisions of the service agreement by either party giving to the other not less than 30 days prior notice in writing. The annual remuneration entitled by Mr. Ushijima is as follows:

	¥
Non-executive Director	
Mr. Noriaki USHIJIMA (牛島憲明)	6,000,000

(c) Each of Mr. Horiba, Mr. Takano, Mr. Yoshida, Mr. Kato and Mr. Yip, being our independent non-executive Directors, has entered into a letter of appointment with our Company for a term of one year commenced on 20 June 2012 which shall be terminated in accordance with the provisions of the service agreement by either party giving to the other not less than 30 days prior notice in writing. The annual remunerations entitled by each of the independent non-executive Directors are as follows:

	¥
Independent non-executive Directors	
Mr. Katsuhide HORIBA (堀場勝英)	6,000,000
Mr. Ichiro TAKANO (高野一郎)	6,000,000
Mr. Yukio YOSHIDA (吉田行雄)	6,000,000
Mr. Mitsutoshi KATO (加藤光利)	5,040,000
Mr. Thomas Chun Kee YIP (葉振基)	5,040,000

2. Directors' remuneration

During the Relevant Period, no emoluments were paid by our Group to our Directors for the two years ended 31 March 2010 and 2011 and the six months ended 30 September 2011 as their emoluments were paid by DYH and were not changed to our Group during these periods. The emoluments of our Directors borne by DYH were approximately ¥457 million, ¥514 million and ¥278 million, respectively, for each of the two years ended 31 March 2010 and 2011 and the six months ended 30 September 2011. For the six months ended 31 March 2012, the aggregate emoluments paid to our Directors were approximately ¥48.9 million. We expect to incur approximately ¥67.7 million (equivalent to approximately HK$6 million) per annum in emoluments after the [●].

3. Disclaimers

Except as disclosed in this document:

(a) none of our Directors or any of the experts referred to in the paragraph headed "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have been within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be so acquired, disposed of or leased;

(b) none of our Directors or any of the experts referred to in the paragraph headed "Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date to this document which is significant in relation to our business;

(c) none of the experts referred to in the paragraph headed "Consents of experts" in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group, save in connection with [●], nor is in the employment of an officer of our Company; and

(d) none of our Directors, any of their associates (as defined in the [●]) or any Shareholder of our Company (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interest in any of our Group's five largest G-prize suppliers, five largest general prize suppliers, five largest pachinko and pachislot machine suppliers or five largest customers.

E. OTHER INFORMATION

1. Estate duty

We have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries in Japan currently have no estate duty, inheritance tax or gift tax.

2. Indemnities

Under the Deed of Indemnity, Mr. Sato, Rich-O and the Sato Family Members (together the "Indemnifiers") have jointly and severally undertaken to and covenanted with our Company that they will indemnify and keep our Company indemnified against any and all tax liabilities falling on our Group which might be payable by our Group in respect of any incomes, profits or gains earned, accrued or received on or before the date on which [●] becomes unconditional, save in the following circumstances:

(i) specific provision or reserve has been made for such liability in the audited accounts of our Group during the Relevant Period; or

(ii) the liability arises or is increased as a result only of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which [●] becomes unconditional; or

(iii) the liability would not have arisen but for any voluntary act of any member of our Group after the date on which [●] becomes unconditional which the relevant member of our Group ought reasonably to have known would give rise to such liability but excluding any act:

(a) carried out pursuant to a legally binding obligation of any member of our Group entered into or incurred on or before the date on which [●] becomes unconditional; or

(b) pursuant to an obligation imposed by any law, regulation or requirement having the force of law; or

(c) taking place with the written approval of any of our Controlling Shareholders or pursuant to [●] or any document executed pursuant to [●]; or

(d) occurring in the ordinary course of business of our Group; or

(iv) the liability arises in the ordinary course of business of the Group after 31 March 2012 up to and including the date on which [●] becomes unconditional.

In addition, pursuant to the Deed of Indemnity, the Indemnifiers also agreed to jointly and severally indemnify us from and against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, penalties and fines of whatever nature which any member of our Group may incur, suffer or accrue, directly or indirectly, arising from, as a result of or in connection with any non-compliance with the applicable laws, rules and regulations by any member of our Group on or before the [●].

3. Litigation

Save as disclosed in this document, neither our Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known by our Directors to be pending or threatened by or against any member of our Group.

4. Promoters

Our Company has no promoter as the term is defined under [●].

5. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately ¥43.5 million, approximately ¥35.6 million of which are payable by DYH and the rest is payable by our Company.

6. Miscellaneous

Except as disclosed in this document:

(a) within the two years immediately preceding the date of this document, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid for either cash or a consideration other than cash;

(b) within the two years immediately preceding the date of this document, no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) within the two years immediately preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries:

(d) since 31 March 2012 (being the date to which the latest audited consolidated financial statements of our Group were made up) there has not been any material adverse effect in the financial or trading position of our Group;

(e) no founder, management or deferred shares or debentures of our Company or any of our subsidiaries have been issued or agreed to be issued;

(f) no company within our Group is presently listed on any stock exchange or traded or any trading system;

(g) there is no arrangement under which future dividends are waived or agreed to be waived; and

(h) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this document.