

# 2014

## Interim Report

Stock Code: 06889



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)*

\* For identification purpose only

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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”, together with its subsidiaries, the “Group”) was incorporated under Japanese law, which differs from Hong Kong law in certain respects. Loss or destruction of share certificates can have serious implications under Japanese law on a shareholder’s ability to sell his/her shares, rights to vote and rights to receive dividend payments. Shareholders of the Company (the “Shareholders”) holding shares of the Company (the “Shares”) in his/her own names (instead of holding through CCASS) are strongly advised to refer to the section headed “Material Shareholders’ Matters under Japanese law” on the Company’s website at <http://www.dyjh.co.jp> and/or seek independent professional advice.

\* For identification purpose only

# Corporate Philosophy

## GROUP PHILOSOPHY

### ***A centurial commitment to building trust and encouraging dreams***

A company cannot exist unless it consistently fulfills the responsibilities it has towards its employees, shareholders, financial institutions, business partners and other stakeholders, while at the same time supports and contributes to customers and local residents.

A company is expected to improve the daily lives of its stakeholders. It must also create a world in which all people are united in trust and able to live in peace.

This corporate philosophy represents the spirit in which people and organizations that are united in trust continuously strive to achieve sustainable growth by using their collective energy to achieve their dreams. The term, “centurial” that is used in our corporate philosophy refers to the long term.

The DYNAM Group maintains a long-term commitment to building trust and encouraging dreams.

## Three Principles of Actions

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The DYNAM Group complies with laws and regulations and rules, and deals with people respectfully.

The DYNAM Group takes decisive actions and values team work.

The DYNAM Group confirms the actual situation on site, and presents it using numerical expressions.

# Five Management Policies



## 1 Principle of Customers First

The DYNAM Group always adopts the principle of customers first, and acts accordingly

## 2 Information Disclosure

The DYNAM Group carries out transparent and fair management by appropriately disclosing information

## 3 Chain Store Management

The DYNAM Group is fully committed to achieving growth through its chain store management

## 4 Training of Human Resources

The DYNAM Group trains human resources and uses their collective energy

## 5 Social Contribution

The DYNAM Group contributes to society by becoming an organization that is indispensable to local communities

# Top Management and Committees

**Executive Directors** Yoji SATO (*Chairman of the Board*)  
Kohei SATO (*Chief Executive Officer*)

**Non-executive Director** Noriaki USHIJIMA

**Independent  
Non-executive Directors** Katsuhide HORIBA  
Ichiro TAKANO  
Yukio YOSHIDA  
Mitsutoshi KATO  
Thomas Chun Kee YIP

**Authorised Representatives** Mitsutoshi KATO  
Ming Wai MOK

**Audit Committee** Ichiro TAKANO (*Chairman*)  
Yukio YOSHIDA  
Thomas Chun Kee YIP

**Remuneration Committee** Katsuhide HORIBA (*Chairman*)  
Mitsutoshi KATO  
Yoji SATO

**Nomination Committee** Katsuhide HORIBA (*Chairman*)  
Mitsutoshi KATO  
Yoji SATO

# Corporate Information

## Headquarters and Registered Office

2-25-1-702 Nishi-Nippori  
Arakawa-ku  
Tokyo, 116-0013  
Japan

## Principal Place of Business in Hong Kong

Unit A1, 32nd Floor, United Centre  
95 Queensway, Admiralty  
Hong Kong

## Corporate Website

[www.dyjh.co.jp](http://www.dyjh.co.jp)

## Investor Relations

E-mail: [info@dyjh.co.jp](mailto:info@dyjh.co.jp)

## Stock Code

06889

## Joint Company Secretaries

Norio HARASAWA  
Ming Wai MOK, *FCIS FCS*

## Share Registrar

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## Principal Legal Advisor as to Hong Kong Law

Deacons  
Li, Wong, Lam & W.I.Cheung

## Principal Legal Advisor as to Japanese Law

Soga Law Office

## Auditors

PricewaterhouseCoopers Aarata  
(*Certified Public Accountants*)

## Principal Bankers

Mizuho Bank Ltd.  
Sumitomo Mitsui Banking Corporation

## Investor and Media Relations Consultant

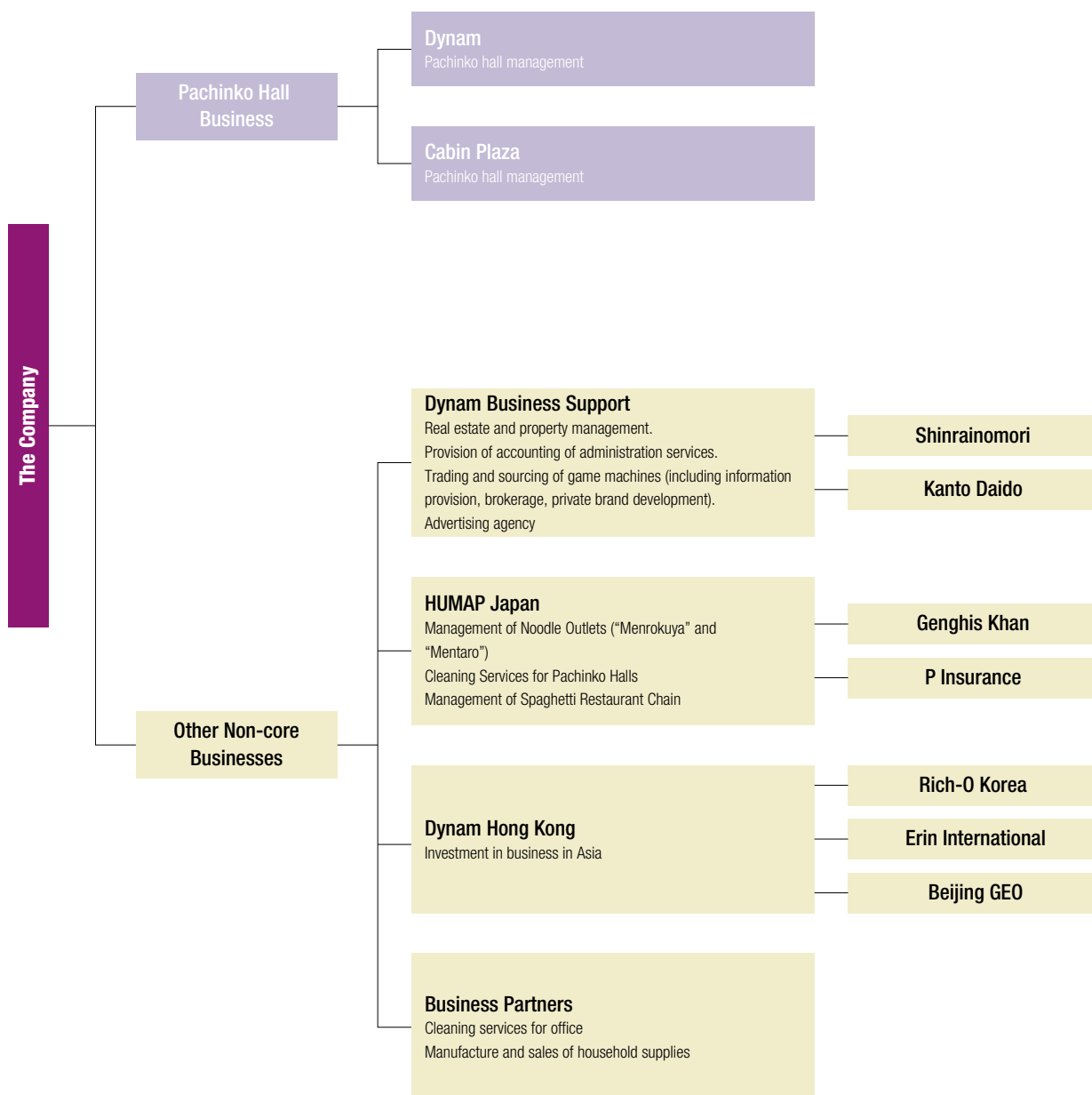
Strategic Financial Relations Limited

# Our Group Organization

## OUTLINE OF THE GROUP

The Company is a holding company which directly controls shares of 6 subsidiaries.

As at 30 September 2014



## PACHINKO HALL OPERATION AS OUR CORE BUSINESS

### ***Largest Pachinko Hall Operator in Japan***

The Company is a holding company which directly controls 6 subsidiaries including the largest pachinko hall operator Dynam. The Group operates the largest pachinko hall chain in Japan as the core business.

The Group operates the industry's largest pachinko hall network with 380 halls as at the end of September 2014.

### ***Pachinko Game Play Summary***

Pachinko is one of the most popular forms of entertainment in Japan.

#### **Pachinko and pachislot machines**

Pachinko halls offer two types of machines: pachinko and pachislot.

Pachinko resembles a pinball machine stood vertically. Small metal pachinko balls are shot continuously toward the playing field of the machine. Several pachinko balls can be earned when a pachinko ball falls into a pocket. Gameplay costs generally range from ¥0.5 to ¥4 per ball.

Pachislot is similar to the slot machines found in a casino. Inserting a token and hitting a lever rotates a reel — a spinning body on which images are displayed. Once the reel stops, the player can earn more tokens if the reel images are aligned. Gameplay costs generally range from ¥5 to ¥20 per token.

The customer borrows pachinko balls or pachislot tokens to play. Earned balls and tokens can be exchanged for prizes or recorded electronically on a member card to be used during a future visit.

#### **Prizes**

There are two types of prizes that can be exchanged for pachinko balls and pachislot tokens: general prizes and G-prizes. General prizes include household goods, snacks, tobacco, and other goods typically sold at a convenience store. G-prizes include small decorated cards containing gold or silver on the inside as well as gold or silver pendants in the shape of a token.

The Group offers 1,000 different types of prizes and also provides a service that allows customers to select a desired prize from a catalog. The Group also holds various seasonal prize campaigns for festivals like Christmas and Halloween. The Group will continue to incorporate new products and popular items in order to improve service to our customers.



Prize display area



# Financial Highlights

	Six months ended 30 September			
	2014 (unaudited)		2013 (unaudited)	
	¥	(in million) HK\$	¥	HK\$
Gross pay-ins	<b>425,297</b>	<b>30,163</b>	470,532	37,167
Less: gross payouts	<b>(344,615)</b>	<b>(24,441)</b>	(388,373)	(30,677)
Revenue	<b>80,682</b>	<b>5,722</b>	82,159	6,490
Hall operating expenses	<b>(64,791)</b>	<b>(4,595)</b>	(67,571)	(5,337)
General and administrative expenses	<b>(2,383)</b>	<b>(169)</b>	(1,412)	(112)
Other income	<b>3,549</b>	<b>252</b>	3,046	241
Other operating expenses	<b>(990)</b>	<b>(70)</b>	(237)	(19)
Operating profit	<b>16,067</b>	<b>1,140</b>	15,985	1,263
Finance income	<b>1,028</b>	<b>73</b>	552	44
Finance expenses	<b>(2,366)</b>	<b>(168)</b>	(402)	(32)
Profit before income taxes	<b>14,729</b>	<b>1,045</b>	16,135	1,274
Income taxes	<b>(5,693)</b>	<b>(404)</b>	(5,852)	(462)
Net profit for the period	<b>9,036</b>	<b>641</b>	10,283	812
Net profit attributable to				
Owners of the Company	<b>9,040</b>	<b>641</b>	10,315	815
Non-controlling interests	<b>(4)</b>	<b>(Δ)</b>	(32)	(2)
	<b>9,036</b>	<b>641</b>	10,283	812
Earnings per share				
Basic	<b>¥12.17</b>	<b>HK\$0.9</b>	¥13.88	HK\$1.1
Diluted	<b>N/A</b>	<b>N/A</b>	N/A	N/A
EBITDA	<b>21,522</b>	<b>1,526</b>	21,237	1,677

Δ: Less than HK\$0.5 million.

	30 September 2014 (unaudited)		31 March 2014 (audited)	
	(in million)			
	¥	HK\$	¥	HK\$
Non-current assets	<b>131,496</b>	<b>9,326</b>	135,223	10,175
Current assets	<b>47,209</b>	<b>3,348</b>	50,946	3,833
Current liabilities	<b>32,618</b>	<b>2,313</b>	34,910	2,627
Net current assets	<b>14,591</b>	<b>1,035</b>	16,036	1,207
Total assets less current liabilities	<b>146,087</b>	<b>10,361</b>	151,259	11,381
Non-current liabilities	<b>5,518</b>	<b>391</b>	9,249	696
Total equity	<b>140,569</b>	<b>9,969</b>	142,010	10,685

## CURRENCY TRANSLATIONS

For the purpose of illustration only and unless otherwise specified in this Interim Report, certain amounts denominated in Japanese yen are translated into Hong Kong dollars at the rate described below:

1. ¥14.10 to HK\$1.00, the exchange rate prevailing on 30 September 2014 (i.e. the last business day in September 2014).
2. ¥12.66 to HK\$1.00, the exchange rate prevailing on 30 September 2013 (i.e. the last business day in September 2013).
3. ¥13.29 to HK\$1.00, the exchange rate prevailing on 31 March 2014 (i.e. the last business day in March 2014).

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.



# Business Overview

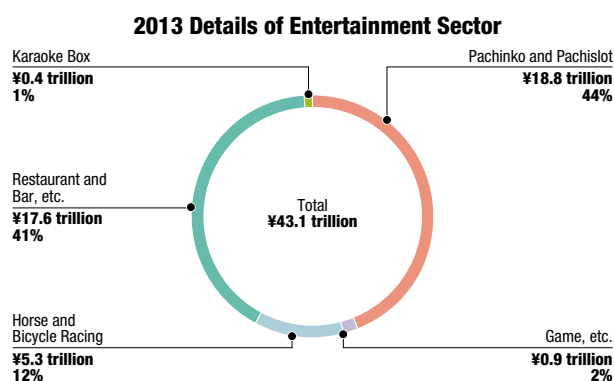
## MARKET TRENDS

### **The Pachinko Industry Represents a Massive Market**

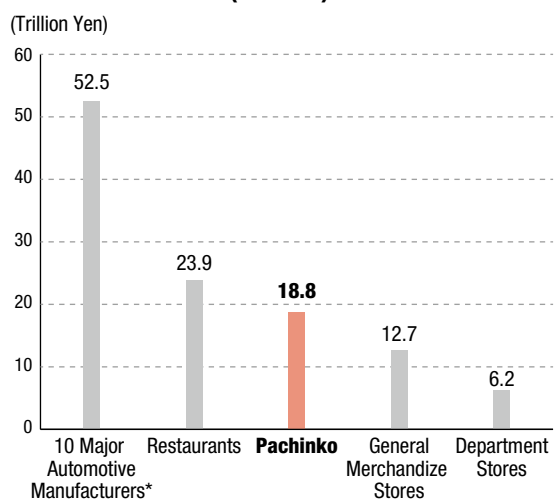
The pachinko industry has come to represent a massive domestic market in Japan. The Leisure White Paper 2014 published by the Japan Productivity Center estimates the size of the pachinko and pachislot industry to be ¥18.8 trillion. Further, in industry comparison research conducted by the Pachinko Trustee Board, the pachinko and pachislot industry plays a major role in job creation in Japan with its 310,000 employees, which is approximately 1.5 times the number employed by Japan's top ten automotive companies\*.

The pachinko market has been facing a decline in size in recent years on the back of factors including diversification in use of leisure time in Japan and stagnation in personal income growth; however, there is still potential in the market for operators that develop multiple pachinko and pachislot halls such as the Group. The pachinko industry is highly fragmented and hall operators operating networks of over 10 halls is limited to the few in the entire industry. The Group held approximately 3.0% market share in terms of the number of halls as of December 2013. We believe that there is significant potential to expand in terms of both scale of operations and market share.

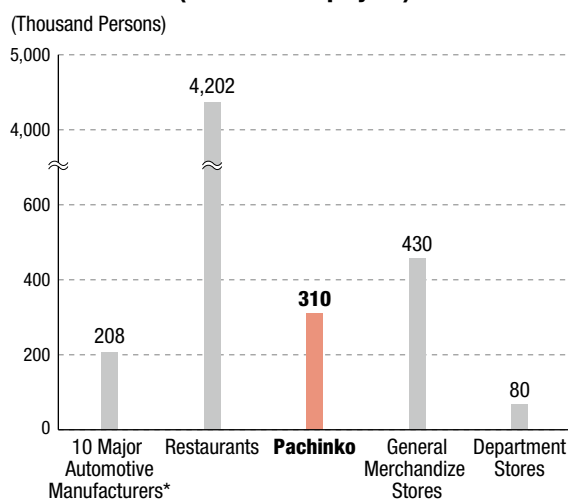
(Source: "Challenge Book 2015" published by the Pachinko Chain Stores Association.)



**Comparison with Other Industries (Revenue)**



**Comparison with Other Industries (Number of Employees)**



Note: The above comparison data of industries were developed by Pachinko Chain Stores Association based on the government statistics and other industry trend research data obtained during the period from 2009 to 2013.

\* 10 major automobile manufacturers consist of Toyota Motor Corporation, Nissan Motor Co., Ltd., Honda Motor Co., Ltd., Suzuki Motor Corporation, MAZDA Motor Corporation, MITSUBISHI MOTORS CORPORATION, Fuji Heavy Industries Ltd., Daihatsu Motor Co., Ltd., Isuzu Motors Limited and Hino Motors, Ltd.

## CHAIN STORE MANAGEMENT AND GROWTH STRATEGY OF THE GROUP

### **Multiple-hall Development and Low-cost Operations**

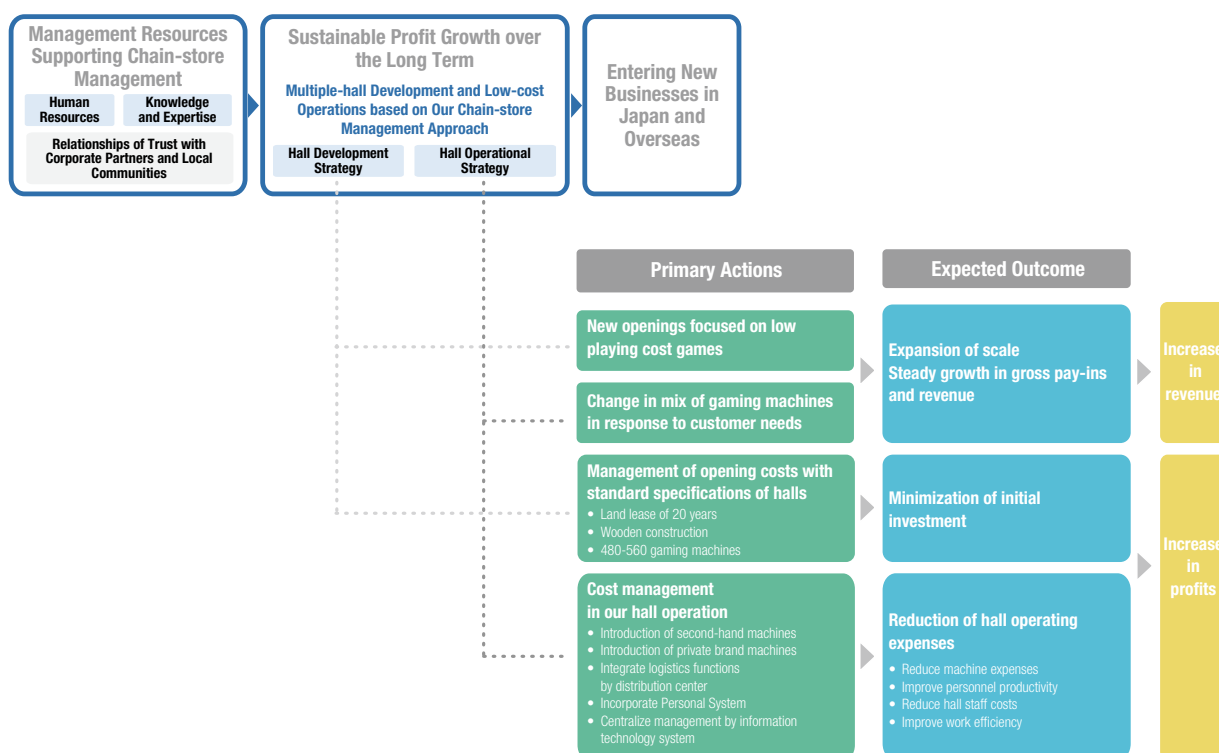
The Group holds the No.1 position in the industry in terms of hall numbers. We aim for sustainable profit growth over the long term by taking maximum advantage of the economies of scale of multiple-hall development based on our theory of chain store operations. We aim to reach a total of 1,000 halls and a market share of 10% by the end of March 2023.

The Group is proactively promoting low playing cost games through multiple halls as the pillar of our growth strategy. Low playing cost games involve reducing costs to users by setting ¥1-per-ball and ¥5-per-token games (as opposed to conventional ¥4-per-ball and ¥20-per-token games) to enable customers to have enjoyment without imposing a significant cost burden on them, and these games are also increasing in popularity with other pachinko companies.

Nevertheless, while low playing cost games lead to increase in customer numbers and visit frequency, and acquisition of new customer base, there is also a risk of decreased profitability at pachinko halls. Because of this, innovation and expertise are essential in the promotion of low cost playing games from new hall development to hall operations, and the Group is taking advantage of our position as an operator driving economies of scale through actions such as the purchase of gaming machines and general prizes through our multiple hall model.

As well as building a sound financial base in this environment, the Group is moving quickly to introduce management techniques based on our theory of chain-store operations, which is well-established in the retail industry. By standardizing hall formats and sizes, we accurately manage development costs. Further, we aim to rationalize the key costs related to machines and personnel, which make up approximately 60% of hall operational expenses, through efficient hall development making use of private brand and second-hand machines, establishment of distribution centers, and use of information technology.

The human resources, knowledge and expertise of the Group and the relationships of trust we have with our corporate partners and local communities support these strategies, and these management resources are the source of our medium to long-term growth. Going forward, the Group will continue to pursue low-cost operations by executing chain store management, and aim to realize sustainable growth in profitability from a long-term perspective.



# Business Overview

## Low-cost Operations and Business Foundations

### Hall Development Strategy

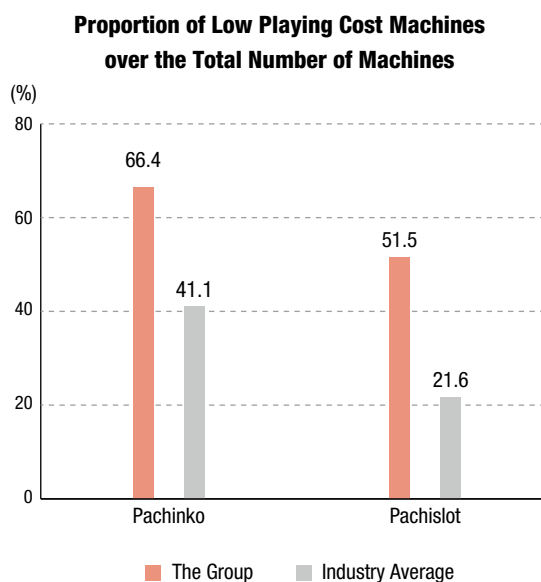
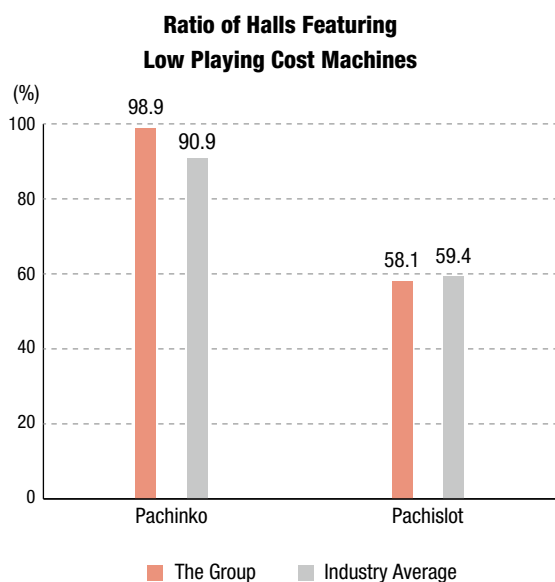
Based on the theory of chain-store operations, we have standardized development of new halls and we are taking actions focused on developing low playing cost halls. We aim to steadily increase revenue and profit while reducing the risk of profit decline with low playing cost games by driving economies of scale through standardized multiple-hall development in this way.

#### ■ Shift to Low Playing Cost Games

Operating low playing cost games such as ¥1-per-ball and ¥5-per-token games (as opposed to conventional ¥4-per-ball and ¥20-per-token games) enables customers to enjoy while controlling playing costs, which leads to improvement in customer numbers and visit frequency. It also enables us to expect penetration into customer categories such as female and elderly users. In recent years, customer needs have been increasingly shifting toward gaming as a pastime-oriented activity to enjoy for leisure rather than primarily to seek prizes.

However, as there is a risk of declining hall profitability in these kinds of low paying cost games, it is essential to use innovation and expertise to enable the promotion of low-cost operations. The Group drives economies of scale through our multiple-hall development, and we are building systems to enable the steady build-up of profit even with low playing cost games. The national average of low playing cost machines is 41.1%; however, the Group has developed this to 66.4% as at 30 June 2014.

Going forward, we will proactively develop low cost playing games under our vision of reinventing pachinko as a genuine public entertainment that everyone can enjoy.



■ Operation of Three Hall Types Centered on Yuttari Kan with Low Playing Cost Games

The Group operates three types of halls with different gaming costs, centered on promoting low playing cost games.

As at 30 September 2014, we are operating 184 *Yuttari Kan* halls throughout Japan with low playing cost games. The total of our *Yuttari Kan* and *Shinrai no Mori* is 209 halls, representing a majority of 55% of our total nationwide operations.

(As at 30 September 2014)

Hall Type			Number of Halls (proportion of total)
Low Playing Cost	<i>Yuttari Kan</i>	<ul style="list-style-type: none"> <li>Primarily low playing cost machines</li> <li>Wider selection of general prizes than <i>Traditional</i> halls</li> <li>Smoking allowed within halls</li> </ul>	184 (48.4%)
	<i>Shinrai no Mori</i>	<ul style="list-style-type: none"> <li>Primarily low paying cost machines</li> <li>Wider selection of general prizes than <i>Traditional</i> halls</li> <li>Designated smoking areas within halls to realize full segregation between smoking and non-smoking areas</li> <li>Lower background noise within halls</li> <li>Relaxation space also available</li> </ul>	25 (6.6%)
High Playing Cost	<i>Traditional</i>	<ul style="list-style-type: none"> <li>Primarily high playing cost machines</li> <li>Smoking allowed within halls</li> </ul>	171 (45.0%)

Note: The number of *Yuttari Kan* halls includes 7 halls operated by Cabin Plaza. The number of *Traditional* halls includes 2 halls operated by Cabin Plaza.

Hall Number Transition by Hall Type

Hall Type	As at	As at	Change
	30 September 2014	30 September 2013	
<i>Traditional</i>	171	174	-3
<i>Yuttari Kan</i>	184	155	+29
<i>Shinrai no Mori</i>	25	34	-9
<b>Total</b>	<b>380</b>	<b>363</b>	<b>+17</b>

The number of halls as at 30 September 2014 increased by 17 halls compared with the number of halls as at 30 September 2013. We opened 5 new *Yuttari Kan* halls during the period from 1 April 2014 to 30 September 2014. Further, we have converted 2 *Traditional* halls and 5 *Shinrai no Mori* halls to *Yuttari Kan* halls.

# Business Overview

## ■ Standardization and Multiple-Hall Development

As the industry leader in terms of hall numbers, we aim to achieve 1,000 halls by the end of March 2023, and we are taking actions in multiple-hall development through the establishment of new halls.

In our efforts to establish new halls, we are standardizing hall types and controlling start-up costs by focusing market of highly-populated regions where we can minimize rent expenses. We are also taking advantage of economies of scale of multiple-hall development to constrain the purchase costs of gaming machines and general prizes when establishing new halls.

The Group has set the following benchmarks for our standardized hall model:

- Targeting small rural and commercial zones with populations of 30,000 to 50,000

The Group promotes a strategy of hall development in suburban areas (suburban population centers). We target to have new hall development in small rural and commercial zones with populations of 30,000 to 50,000 people.

- Standardized installation of 480 to 560 gaming machines

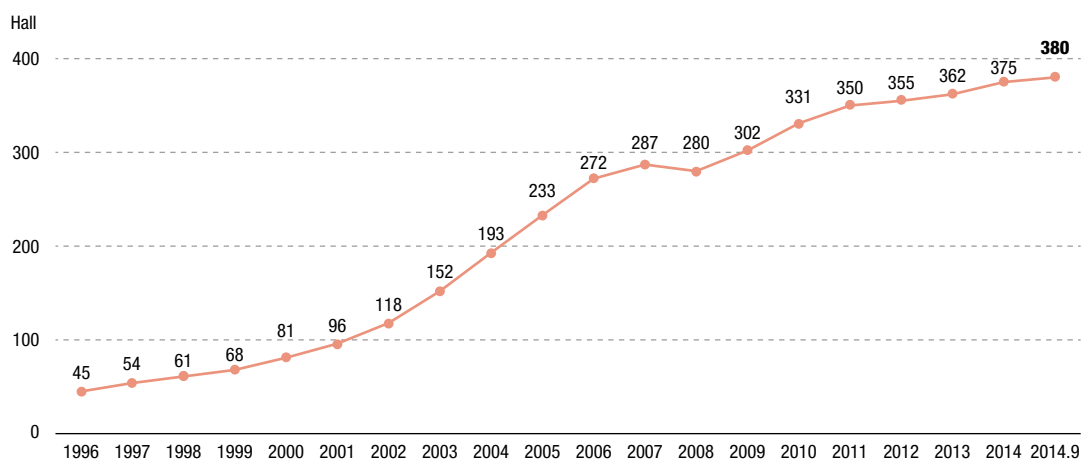
We have prepared layouts for the full range of hall feature specifications from bathroom facilities to signage for our pachinko and pachislot halls based on standardized gaming machine numbers of 480 to 560 machines. This enables us to reduce initial investment costs in areas including building expenses and construction lead times.

- 20-year leases and standardized wood construction

As a general rule, we construct wooden halls on sites leased for 20 years in our new hall development (fixed-term leasehold contracts for business). This enables us to avoid excessive investments associated with purchasing land and easily withdraw in the event of future changes in the marketplace. Further, fixed-asset depreciation is almost complete at the conclusion of the 20-year term, minimizing losses on retirement of assets. Furthermore, the development of multiple standardized halls enables us to reduce design expenses and gain efficiencies in purchasing of construction materials.

As at the end of March  
(except for "2014.9")

**Transition in the number of Halls of the Group**



## Management Resources of the Group to Support Hall Development

### ■ *Maintaining Sound Financial Position*

The Group firmly maintains sound management. Our financial position enables business continuity without dependence on external borrowing as a result of our steady accumulation of profit and substantial cash reserves. This financial strength also enables flexibility in our hall development activities.

Further, in addition to our strict decision-making criteria when considering new hall development, which limits approval of new developments to only those where we can project certain profitability into the future, we have also established cash flow creation frameworks, through which we can cover capital investment expenditures using cash flows generated internally.

As a result of these measures, financial institutions highly rate our creditworthiness. We have established commitment lines with several financial institutions, securing loan of ¥30 billion for the Group as at 30 September 2014.

### ■ *Accumulating Expertise to Enable Efficient and Effective Hall Development*

The Group has established a specialized department responsible for location development activities associated with establishing new halls. The department selects multiple candidate locations from regional population centers, narrows down these candidates based on group hall development criteria, and confirms information which cannot be ascertained from mapping alone by visiting and surveying local sites before we make decisions on hall development locations.

Building up expertise and experience in the department divisions enables us to develop halls efficiently and effectively.

### ■ *Building Strong Relationships with Land Owners and Local Communities*

Relationships of trust with stakeholders such as land owners and local communities in the areas where we develop our halls are important elements in the Group's aspirations for sustainable growth.

In the process of negotiating and entering contracts with land owners in relation to hall development, the staff in our specialized department responsible for location development provide careful and polite explanations regarding Group philosophy and details of our business in addition to matters such as rent and contract terms. Further, we participate proactively in regional events and clean-up activities throughout the country, as well as continuously donating to social welfare councils.

We intend to continue to further strengthen communication with land owners and local communities as important elements in the continuity of our business development.





# Business Overview

## Hall Operational Strategy

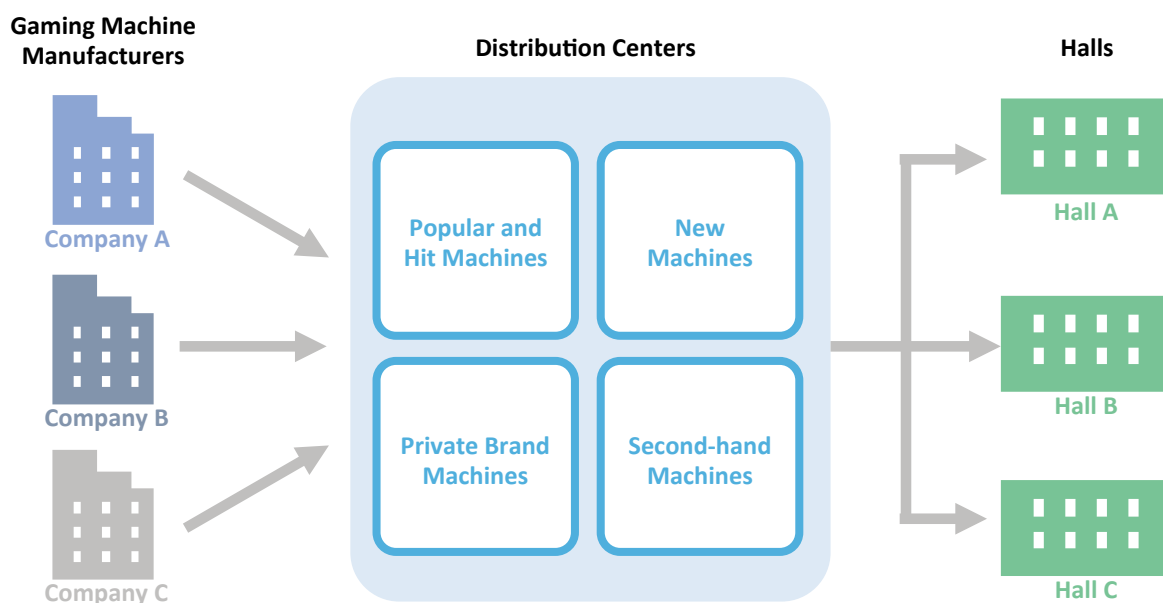
The Group drives economies of scale by taking its chain store management approach and thoroughly controlling costs after establishment of new halls. In particular, we believe that optimization of machine and personnel expenses, which make up approximately 60% of hall operational expenses, is extremely important in terms of cost management. In order to control gaming machine expenses, we take advantage of distribution centers operated by the Group to move machines among halls as well as deploying private brand and second-hand machines throughout our halls nationwide. Further, we are taking proactive actions in areas including introduction of information technology systems, control of personnel expenses and efficiency in various business operations.

### ■ Private Brand and Second-hand Machines

As the cost of gaming machines continues to rise each year on the back of skyrocketing development and component costs, the Group is working proactively to install private brand and second-hand gaming machines in our halls. We aim to reduce hall operation expenses by controlling machine costs (costs related to the procurement of gaming machines) through measures including installing not only popular, hit and new machines but also private brand and second-hand machines, which we can source at lower cost, and using distribution centers operated by the Group to transport and relocate machines among halls. Out of the gaming machines purchased by the Group up to September in 2014, 25.2% was second-hand machines.

In the development and introduction of private brand machines, we use information obtained from the Group customer membership system to match customer preferences and consider unique specifications that customers are unable to experience at other halls. Once we have completed this, we commit fixed volumes in single orders to machine manufacturers to reduce costs compared to the average market price for national brand machines.

The Group intends to continue development and introduction of private brand machines and make use of second-hand machines to further minimize hall operating expenses.



## ■ *Establishment of Distribution Centers*

The Group operating halls on a nationwide scale has established 16 distribution centers around the country, each covering 20 to 30 halls for each region. Each distribution center stocks a diverse range of gaming machines including new, second-hand and private brand machines as well as machine parts. By consolidating transportation of gaming machines and parts among halls covered by each center, we are able to realize reduction in costs related to transportation as well as flexibility in hall operations such as tailoring changes to machine line-ups depending on customer needs.

There are also other benefits in operating distribution centers within the Group including avoiding to adjust opening hours or close halls when changing machines. Being able to control delivery times depending on the situation at each hall enables us to minimize interruption to hall operations.



Distribution Center

## ■ *Strategic Use of Information Technology Systems*

### — Introduction of the Personal System

We have been progressively introducing the Personal System at each hall, which enables recording of customers' pachinko ball and pachislot token numbers.

Use of the Personal System eliminates the need for customers to stack and carry boxes of balls they earn during game play and also eliminates the need for pachinko hall staff to assist customers in carrying boxes of balls and tokens to the prize exchange area as they have done up until now. This has led to reduced personnel expenses and improved personnel productivity at our halls.

#### Benefits of the Personal System

<Customers>	No need to stack and carry balls and tokens
<Hall Staff>	Reduction in work volume and working hours
<Hall Operations>	Improvement in personnel productivity and reduction in personnel expenses

# Business Overview

- Centralized management using information systems

In addition to the Personal System, we are also building various information technology systems. By strategically promoting use of information technology systems, we are taking actions to improve operational efficiency and reduce costs in areas including formulating hall operating and marketing strategy, human resources and accounting.

Overview of Principal Information Technology Systems

Systems	Roles and Functions
Hall Management System	Management and monitoring of the overall performance and machine utilisation of our hall operations.
Sales Management System	Generation of performance reports including information on utilisation of machines and profits from our halls which we use to analyse performance and set budgets.
Machine Management System	Collection and management of information on the replacement, ordering, inspection, quality control, relevant approvals, transfer and disposal of new and second-hand machines.
Prize Management System	Management of ordering and inventory movement related to prizes at each hall (used to manage display and restocking of general prizes, inventory management, and stocktaking).
Human Resources System	Management of human resource information for the overall group, and payroll calculations.
Accounting System	Management of assets including machines and prizes, and overall accounting for operations.

## Management Resources of the Group to Support Hall Operational Strategy

### ■ *Proactive Communication with Suppliers*

The Group seeks to operate with a focus on profitability. In order to control sourcing expenses, we take actions to ensure effective communication with suppliers such as gaming machine manufacturers as well as providers of other machinery and equipment and general prizes.

For example, we arrange periodic opportunities to exchange opinions and information with gaming machine manufacturers regarding matters including market trends, machine specifications and content, and post-delivery evaluations. In particular with the manufacturers of our private brand machines, we engage in regular discussions regarding planning and specifications based on our proprietary analysis data to ensure that we realize development of simple and easy-to-use machines that meet the needs of our customers at a lower price than the average market price for national brand machines.

## ■ Focusing on Employee Training and Development by Establishing Unique Training Programs

Developing superior human resources with knowledge, skills and experience is essential in the execution of chain-store management.

Since commencing development of halls outside the Tokyo Metropolitan area in 1989, the Group has been annually recruiting 200 to 300 staff who are mainly university graduates as candidates for management personnel, and focusing our efforts on their training and development. Specifically, we conduct unique training programs depending on the level and objectives of our employees including on-the-job training at halls, group training courses at training facilities, self-development using text books and e-learning, and rotation to enable experience in operations at other halls and the head office. These actions enable us to promote improvement in the knowledge and skills needed to execute our chain-store management.

In addition to this kind of practical training and development, we have prepared unique training programs to promote the Group corporate culture. For example, we conduct a “*Jinsei Daigaku*” (literally means “life university”) program for all of our employees after they reach a certain length of service in which we create opportunities to develop widely and richly in human terms through activities such as reading and holding group discussions in an environment including sharing meals and accommodation with other personnel from a diverse range of divisions, positions, and ages. Further, the Group has established two large-scale training centers in Japan in order to conduct group training courses.

The employees that grow and develop through these actions promote our low-cost operations in a variety of positions, and we believe that they are one of the key strengths of the Group.



Training facility



## Support the Success of Women in the Workplace

Japan’s working-age population is declining as a result of low birth rates and the ageing society. Therefore, promoting success of women in the workplace is one of the pillars of the government’s growth strategy. Further, 20% of our customers are female at present, and the importance of developing halls from a female perspective is becoming increasingly important.

In this environment, the Group has established a number of frameworks to support the activities of our female employees. We support the growth and career development of employees aiming to advance their careers by listing internal vacancies and completing self-assessment sheets. We also support employees raising families by reducing working hours, offering parental leave (which may be taken by both male and female employees), and restricting overtime and late-night working hours.

Further, in addition to establishing a mentor program that enables employees to discuss matters they feel uncomfortable about their supervisors with experienced mentors, we also conduct periodic training and development programs to develop future female senior and management employees as role models for female staff under our *Dynam Nadeshiko Project*.

We also plan to raise the proportion of female to be recruited in the Group to approximately 25%.

# Business Overview

## Overseas Business Development

### ■ *Business Collaboration in Asia*

After listing on the Stock Exchange, we established Dynam Hong Kong as our Hong Kong subsidiary in 2013 and have been promoting business investments in the Asia region.

We are conducting investments related to the Erin Town Project in Mongolia through Dynam Hong Kong. We have also invested in casino operator Macau Legend as well as concluding a memorandum of understanding related to operation of entertainment facilities and food and beverage outlets within Macau Fisherman's Wharf, one of the largest casino establishments in Macau.

Furthermore, we have invested in IGG, a company with strengths in software development including graphics development.

The Group intends to continue to search for business collaboration opportunities through equity investments by collecting information and conducting research in various business fields that take advantage of our expertise and human resources.



## Initiatives Aimed at Bringing Casinos to Japan

### ■ *Increasing Likelihood of Casinos in Japan*

After the successful bid to host the 2020 Olympic Games in Tokyo, there has been increasing focus both in Japan and overseas regarding the direction of debate in the Diet over introduction of a bill to promote development of integrated resorts including ending the prohibition of casinos.

There are expectations regarding the realization of integrated resorts with the objective of invigorating tourism and creating employment as one of the Abe Cabinet's economic policies. In the event that the bill currently being debated regarding promotion of integrated resorts is passed, specific considerations of the act to implement integrated resorts will proceed with a timeframe of one year.

We believe that there are few companies in Japan that would be able to properly conduct casino operations given the likely time constraints. The Group has accumulated considerable knowledge from our involvement in casinos in Macau, and we have built a wealth of expertise and human resources over our 47-year history. It is without question that the Group will continue as a prominent position on the first page of a new history of casino operation in Japan.

# Financial Review

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

	Six months ended 30 September				changes
	2014		2013		
	(unaudited)		(unaudited)		
	(in million, except for percentages)				
	¥	HK\$ <sup>(1)</sup>	¥	HK\$ <sup>(2)</sup>	
<b>Gross pay-ins</b>					
— <i>Traditional</i>	<b>289,840</b>	<b>20,556</b>	343,925	27,167	–15.7%
— <i>Yuttari Kan</i>	<b>120,866</b>	<b>8,572</b>	107,249	8,471	+12.7%
— <i>Shinrai no Mori</i>	<b>14,590</b>	<b>1,035</b>	19,358	1,529	–24.6%
<b>Total gross pay-ins</b>	<b>425,297</b>	<b>30,163</b>	470,532	37,167	–9.6%
<b>Gross payouts</b>					
— <i>Traditional</i>	<b>241,744</b>	<b>17,145</b>	292,328	23,091	–17.3%
— <i>Yuttari Kan</i>	<b>91,919</b>	<b>6,519</b>	81,359	6,426	+13.0%
— <i>Shinrai no Mori</i>	<b>10,951</b>	<b>777</b>	14,686	1,160	–25.4%
<b>Total gross payouts</b>	<b>344,615</b>	<b>24,441</b>	388,373	30,677	–11.3%
<b>Revenue</b>					
— <i>Traditional</i>	<b>48,096</b>	<b>3,411</b>	51,598	4,076	–6.8%
— <i>Yuttari Kan</i>	<b>28,947</b>	<b>2,053</b>	25,889	2,045	+11.8%
— <i>Shinrai no Mori</i>	<b>3,639</b>	<b>258</b>	4,671	369	–22.1%
<b>Total revenue</b>	<b>80,682</b>	<b>5,722</b>	82,159	6,490	–1.8%

<sup>(1)</sup> Translated into Hong Kong dollars at the rate of ¥14.10 to HK\$1.00, the exchange rate prevailing on 30 September 2014 (i.e. the last business day in September 2014).

<sup>(2)</sup> Translated into Hong Kong dollars at the rate of ¥12.66 to HK\$1.00, the exchange rate prevailing on 30 September 2013 (i.e. the last business day in September 2013).

# Financial Review

## GROSS PAY-INS

Gross pay-ins represent the amount received from pachinko balls and pachislot tokens rented to customers less unutilised balls and tokens.

Our gross pay-ins decreased by ¥45,235 million (equivalent to approximately HK\$3,208 million), or 9.6%, from ¥470,532 million (equivalent to approximately HK\$37,167 million) for the six months ended 30 September 2013 to ¥425,297 million (equivalent to approximately HK\$30,163 million) for the six months ended 30 September 2014. The Company maintained steady stream in its performance although the total figures decreased. Especially, by hall types, gross pay-ins for *Yuttari Kan* halls increased compared with the same period of the previous year due to the increase in the number of halls including the opening of new halls, which reflects our successful operation to place emphasis on low playing cost halls.

*Traditional* halls. Gross pay-ins for *traditional* halls decreased by ¥54,085 million (equivalent to approximately HK\$3,836 million), or 15.7%, from ¥343,925 million (equivalent to approximately HK\$27,167 million) for the six months ended 30 September 2013 to ¥289,840 million (equivalent to approximately HK\$20,556 million) for the six months ended 30 September 2014. The decrease was primarily due to the decrease in utilisation of our high playing cost machines, decreased number of high playing cost machines while increased number of low playing cost machines, and decrease in number of halls associated with conversion of 3 *Traditional* halls to *Yuttari Kan* halls.

*Yuttari Kan* halls. Gross pay-ins for *Yuttari Kan* halls increased by ¥13,617 million (equivalent to approximately HK\$966 million), or 12.7%, from ¥107,249 million (equivalent to approximately HK\$8,471 million) for the six months ended 30 September 2013 to ¥120,866 million (equivalent to approximately HK\$8,572 million) for the six months ended 30 September 2014. The increase was due primarily to the addition of 29 new *Yuttari Kan* halls compared with the previous interim period including conversion of hall types from *Traditional* halls and *Shinrai no Mori* halls. The positive performance is the outcome of our successful operation to place emphasis on low playing cost halls.

*Shinrai no Mori* halls. Gross pay-ins for *Shinrai no Mori* halls decreased by ¥4,768 million (equivalent to approximately HK\$338 million), or 24.6%, from ¥19,358 million (equivalent to approximately HK\$1,529 million) for the six months ended 30 September 2013 to ¥14,590 million (equivalent to approximately HK\$1,035 million) for the six months ended 30 September 2014. The decrease was primarily due to the decrease of 9 *Shinrai no Mori* halls associated with conversion of hall type to *Yuttari Kan* halls.

## GROSS PAYOUTS

Gross payouts represent the aggregate cost of G-prizes and general prizes exchanged at our halls by our customers.

Our gross payouts decreased by ¥43,758 million (equivalent to approximately HK\$3,103 million), or 11.3%, from ¥388,373 million (equivalent to approximately HK\$30,677 million) for the six months ended 30 September 2013 to ¥344,615 million (equivalent to approximately HK\$24,441 million) for the six months ended 30 September 2014.

*Traditional* halls. Gross payouts decreased by ¥50,583 million (equivalent to approximately HK\$3,587 million), or 17.3%, from ¥292,328 million (equivalent to approximately HK\$23,091 million) for the six months ended 30 September 2013 to ¥241,744 million (equivalent to approximately HK\$17,145 million) for the six months ended 30 September 2014, which was in line with the decrease in gross pay-ins.

*Yuttari Kan* halls. Gross payouts increased by ¥10,560 million (equivalent to approximately HK\$749 million), or 13.0%, from ¥81,359 million (equivalent to approximately HK\$6,426 million) for the six months ended 30 September 2013 to ¥91,919 million (equivalent to approximately HK\$6,519 million) for the six months ended 30 September 2014. The increase was due primarily to the increase in gross pay-ins and the addition of 29 *Yuttari Kan* halls.

*Shinrai no Mori* halls. Gross payouts decreased by ¥3,735 million (equivalent to approximately HK\$265 million), or 25.4%, from ¥14,686 million (equivalent to approximately HK\$1,160 million) for the six months ended 30 September 2013 to ¥10,951 million (equivalent to approximately HK\$777 million) for the six months ended 30 September 2014. The decrease was due primarily to the decrease in gross pay-ins.

## REVENUE AND REVENUE MARGIN

Our revenue represents the gross pay-ins, less gross payouts to customers and our revenue margin represents revenue divided by gross pay-ins.

Our revenue was ¥82,159 million (equivalent to approximately HK\$6,490 million) and ¥80,682 million (equivalent to approximately HK\$5,722 million) for the six months ended 30 September 2013 and 2014 respectively.

The Company maintained steady stream in its performance although the total revenue slightly decreased. Especially, by hall types, revenue for *Yuttari Kan* halls increased compared with the same period of the previous year due to the increase in the number of halls including the opening of new halls, which reflects our successful operation to place emphasis on low playing cost halls.

*Traditional* halls. Revenue for *Traditional* halls decreased by ¥3,502 million (equivalent to approximately HK\$248 million), or 6.8%, from ¥51,599 million (equivalent to approximately HK\$4,076 million) for the six months ended 30 September 2013 to ¥48,096 million (equivalent to approximately HK\$3,411 million) for the six months ended 30 September 2014. The decrease was primarily due to the decrease in gross pay-ins over the period. The revenue margin increased by 1.6 points to 16.6% for the six months ended 30 September 2014 compared with the same period of the previous year mainly due to the change in mix of playing machines including increased number of low playing cost machines in our *Traditional* halls.

*Yuttari Kan* halls. Revenue for *Yuttari Kan* halls increased by ¥3,058 million (equivalent to approximately HK\$217 million), or 11.8%, from ¥25,889 million (equivalent to approximately HK\$2,045 million) for the six months ended 30 September 2013 to ¥28,947 million (equivalent to approximately HK\$2,053 million) for the six months ended 30 September 2014. The revenue margin was 23.9% for the six months ended 30 September 2014 and maintained the same level as the previous interim period.

*Shinrai no Mori* halls. Revenue for *Shinrai no Mori* halls decreased by ¥1,032 million (equivalent to approximately HK\$73 million), or 22.1%, from ¥4,671 million (equivalent to approximately HK\$369 million) for the six months ended 30 September 2013 to ¥3,639 million (equivalent to approximately HK\$258 million) for the six months ended 30 September 2014. The decrease was primarily due to the decrease in gross pay-ins over the period. The revenue margin was 24.9% for the six months ended 30 September 2014 and maintained the same level as the previous interim period.



# Financial Review

## HALL OPERATING EXPENSES

The following table sets forth a breakdown of our hall operating expenses by hall type for the periods indicated:

	For the six months ended 30 September															
	2014 (unaudited)						Total		2013 (unaudited)							
	Traditional		Yuttari Kan		Shinrai no mori				Traditional		Yuttari Kan		Shinrai no mori		Total	
	¥	%	¥	%	¥	%	¥	%	¥	%	¥	%	¥	%	¥	%
Hall staff costs	12,712	37.3%	8,883	32.6%	1,160	33.7%	22,754	35.1%	13,625	33.8%	7,540	32.9%	1,436	32.8%	22,602	33.4%
Machine expenses	9,121	26.8%	6,821	25.0%	787	22.9%	16,729	25.8%	12,617	31.3%	5,233	22.8%	919	21.0%	18,769	27.8%
Depreciation charges	2,160	6.3%	2,270	8.3%	349	10.2%	4,779	7.4%	2,371	5.9%	1,967	8.6%	556	12.7%	4,895	7.2%
Rental	2,397	7.0%	2,733	10.0%	292	8.5%	5,422	8.4%	2,527	6.3%	2,287	10.0%	374	8.6%	5,188	7.7%
Advertising expenses	1,070	3.1%	856	3.1%	98	2.9%	2,025	3.1%	1,520	3.8%	660	2.9%	120	2.7%	2,300	3.4%
Utilities expenses	1,487	4.4%	1,386	5.1%	174	5.1%	3,046	4.7%	1,443	3.6%	1,127	4.9%	216	4.9%	2,786	4.1%
G-prize expenses	1,172	3.4%	1,118	4.1%	166	4.8%	2,455	3.8%	1,306	3.2%	1,095	4.8%	235	5.4%	2,636	3.9%
Cleaning and ancillary services	808	2.4%	726	2.7%	83	2.4%	1,617	2.5%	1,238	3.1%	837	3.7%	206	4.7%	2,281	3.4%
Repair and maintenance	567	1.7%	554	2.0%	66	1.9%	1,188	1.8%	889	2.2%	553	2.4%	73	1.7%	1,515	2.2%
Others	2,590	7.6%	1,923	7.1%	264	7.7%	4,776	7.4%	2,745	6.8%	1,616	7.1%	238	5.4%	4,599	6.8%
<b>Total</b>	<b>34,084</b>	<b>100.0%</b>	<b>27,270</b>	<b>100.0%</b>	<b>3,438</b>	<b>100.0%</b>	<b>64,791</b>	<b>100.0%</b>	<b>40,281</b>	<b>100.0%</b>	<b>22,917</b>	<b>100.0%</b>	<b>4,373</b>	<b>100.0%</b>	<b>67,571</b>	<b>100.0%</b>

The following table sets forth a breakdown of the average hall operating expenses per hall, by hall type, for the periods indicated:

	For the six months ended 30 September															
	2014 (unaudited)						Total		2013 (unaudited)							
	Traditional		Yuttari Kan		Shinrai no mori				Traditional		Yuttari Kan		Shinrai no mori		Total	
	¥	%	¥	%	¥	%	¥	%	¥	%	¥	%	¥	%	¥	%
Hall staff costs	74.3	37.3%	48.3	32.6%	46.4	33.7%	59.9	35.1%	78.3	33.8%	48.6	32.9%	42.2	32.8%	62.3	33.4%
Machine expenses	53.3	26.8%	37.1	25.0%	31.5	22.9%	44.0	25.8%	72.5	31.3%	33.8	22.8%	27.0	21.0%	51.7	27.8%
Depreciation charges	12.6	6.3%	12.3	8.3%	14.0	10.2%	12.6	7.4%	13.6	5.9%	12.7	8.6%	16.4	12.7%	13.5	7.2%
Rental	14.0	7.0%	14.9	10.0%	11.7	8.5%	14.3	8.4%	14.5	6.3%	14.8	10.0%	11.0	8.6%	14.3	7.7%
Advertising expenses	6.3	3.1%	4.7	3.1%	3.9	2.9%	5.3	3.1%	8.7	3.8%	4.3	2.9%	3.5	2.7%	6.3	3.4%
Utilities expenses	8.7	4.4%	7.5	5.1%	7.0	5.1%	8.0	4.7%	8.3	3.6%	7.3	4.9%	6.4	4.9%	7.7	4.1%
G-prize expenses	6.9	3.4%	6.1	4.1%	6.6	4.8%	6.5	3.8%	7.5	3.2%	7.1	4.8%	6.9	5.4%	7.3	3.9%
Cleaning and ancillary services	4.7	2.4%	3.9	2.7%	3.3	2.4%	4.3	2.5%	7.1	3.1%	5.4	3.7%	6.1	4.7%	6.3	3.4%
Repair and maintenance	3.3	1.7%	3.0	2.0%	2.6	1.9%	3.1	1.8%	5.1	2.2%	3.6	2.4%	2.1	1.7%	4.2	2.2%
Others	15.1	7.6%	10.5	7.1%	10.6	7.7%	12.6	7.4%	15.8	6.8%	10.4	7.1%	7.0	5.4%	12.7	6.8%
<b>Total</b>	<b>199.3</b>	<b>100.0%</b>	<b>148.2</b>	<b>100.0%</b>	<b>137.5</b>	<b>100.0%</b>	<b>170.5</b>	<b>100.0%</b>	<b>231.5</b>	<b>100.0%</b>	<b>147.9</b>	<b>100.0%</b>	<b>128.6</b>	<b>100.0%</b>	<b>186.1</b>	<b>100.0%</b>

Hall operating expenses decreased by ¥2,780 million (equivalent to approximately HK\$197 million), or 4.1%, from ¥67,571 million (equivalent to approximately HK\$5,337 million) for the six months ended 30 September 2013 to ¥64,791 million (equivalent to approximately HK\$4,595 million) for the six months ended 30 September 2014. The total amount of the entire hall operating expenses decreased primarily attributable to substantial decrease in pachinko and pachislot machine expenses in *Traditional* halls, partially offset by increased pachinko and pachislot machine expenses and hall staff costs in *Yuttari Kan* halls due to increased number of halls compared with the previous corresponding period.

*Traditional halls.* Hall operating expenses decreased by ¥6,197 million (equivalent to approximately HK\$440 million), or 15.4%, from ¥40,281 million (equivalent to approximately HK\$3,182 million) for the six months ended 30 September 2013 to ¥34,084 million (equivalent to approximately HK\$2,417 million) for the six months ended 30 September 2014. The average hall operating expenses per hall also decreased by 13.9% due primarily to the decrease in average pachinko and pachislot machine expenses and advertising expenses per hall by 26.4% and 28.4% respectively.

*Yuttari Kan halls.* Hall operating expenses increased by ¥4,353 million (equivalent to approximately HK\$309 million), or 19.0%, from ¥22,917 million (equivalent to approximately HK\$1,810 million) for the six months ended 30 September 2013 to ¥27,270 million (equivalent to approximately HK\$1,934 million) for the six months ended 30 September 2014, due primarily to the increase in pachinko and pachislot machine expenses and hall staff costs associated with addition of 29 new *Yuttari Kan* halls including changeover of hall types from *Traditional* halls and *Shinrai no Mori* halls compared with the previous interim period. On a per hall basis, average hall operating expenses was ¥148 million (equivalent to approximately HK\$10 million) for the six months ended 30 September 2014, which maintained the same level as for the six months ended 30 September 2013.

*Shinrai no Mori halls.* Hall operating expenses decreased by ¥935 million (equivalent to approximately HK\$66 million), or 21.4%, from ¥4,373 million (equivalent to approximately HK\$345 million) for the six months ended 30 September 2013 to ¥3,438 million (equivalent to approximately HK\$244 million) for the six months ended 30 September 2014, due primarily to the decrease of 9 *Shinrai no Mori* halls associated with conversion of hall type to *Yuttari Kan* halls. On a per hall basis, average hall operating expenses increased by 7.0%, from ¥129 million (equivalent to approximately HK\$10 million) for the six months ended 30 September 2013 to ¥138 million (equivalent to approximately HK\$10 million) for the six months ended 30 September 2014. The increase in average hall operating expenses per hall was due primarily to the decreased number of halls.

## GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased by ¥971 million (equivalent to approximately HK\$69 million), or 68.8%, from ¥1,412 million (equivalent to approximately HK\$112 million) for the six months ended 30 September 2013 to ¥2,383 million (equivalent to approximately HK\$169 million) for the six months ended 30 September 2014. The increase was primarily due to the increased number of employees as a result of the acquisition of HUMAP Japan.

# Financial Review

## OTHER INCOME

Other income primarily comprises commission income from vending machines and in-store sales, which represented 69.0% and 57.5% of total other income for the six months ended 30 September 2013 and 2014 respectively. Other income increased by ¥503 million (equivalent to approximately HK\$36 million), or 16.5%, from ¥3,046 million (equivalent to approximately HK\$241 million) for the six months ended 30 September 2013 to ¥3,549 million (equivalent to approximately HK\$252 million) for the six months ended 30 September 2014 due primarily to the reversal of the impairment loss and the acquisition of HUMAP Japan.

## OTHER OPERATING EXPENSES

Other operating expenses increased by ¥753 million (equivalent to approximately HK\$53 million), or 317.7%, from ¥237 million (equivalent to approximately HK\$19 million) for the six months ended 30 September 2013 to ¥990 million (equivalent to approximately HK\$70 million) for the six months ended 30 September 2014. The increase was primarily attributable to the impairment loss on property, plant, and equipment.

## FINANCE INCOME

Finance income increased by ¥476 million (equivalent to approximately HK\$34 million), or 86.2%, from ¥552 million (equivalent to approximately HK\$44 million) for the six months ended 30 September 2013 to ¥1,028 million (equivalent to approximately HK\$73 million) for the six months ended 30 September 2014. The increase was primarily attributable to the net foreign currency exchange gain.

## FINANCE EXPENSES

Finance expenses increased by ¥1,964 million (equivalent to approximately HK\$139 million), or 488.6%, from ¥402 million (equivalent to approximately HK\$32 million) for the six months ended 30 September 2013 to ¥2,366 million (equivalent to approximately HK\$168 million) for the six months ended 30 September 2014. The increase was primarily attributable to the decrease in market value of the IGG shares.

## CASH FLOW AND LIQUIDITY

### Cash flows

We meet our working capital and other capital requirements principally with the following: (i) cash generated from our operations, (ii) bank borrowings and (iii) proceeds from the initial public offering. The table below sets out the cash flow data extracted from our consolidated statement of cash flows:

	Six months ended 30 September			
	2014 (unaudited)		2013 (unaudited)	
	¥	(in million) HK\$ <sup>(1)</sup>	¥	HK\$ <sup>(2)</sup>
Net cash generated from operating activities	13,278	942	12,738	1,006
Net cash used in investing activities	(7,576)	537	(7,456)	(589)
Net cash used in financing activities	(10,126)	718	(6,634)	(524)
Effect of exchange rate changes on cash and cash equivalents	391	28	820	65
Net (decrease)/increase in cash and cash equivalents	(4,033)	286	(532)	(42)
Cash and cash equivalents at the beginning of period	34,836	2,471	41,466	3,275
Cash and cash equivalents at the end of period	30,803	2,185	40,934	3,233

### Net cash generated from operating activities

The following table sets forth a summary of our cash flows from operating activities for the periods indicated:

	Six months ended 30 September			
	2014 (unaudited)		2013 (unaudited)	
	¥	(in million) HK\$ <sup>(1)</sup>	¥	HK\$ <sup>(2)</sup>
Operating profit before working capital changes	21,442	1,521	21,217	1,676
Change in working capital — (used in)	1,059	75	(2,340)	(185)
Cash generated from operations	22,501	1,596	18,877	1,491
Income taxes paid	(8,872)	(629)	(5,790)	(457)
Finance costs paid	(351)	(25)	(349)	(28)
Net cash generated from operating activities	13,278	942	12,738	1,006

<sup>(1)</sup> Translated into Hong Kong dollars at the rate of ¥14.10 to HK\$1.00, the exchange rate prevailing on 30 September 2014 (i.e. the last business day in September 2014).

<sup>(2)</sup> Translated into Hong Kong dollars at the rate of ¥12.66 to HK\$1.00, the exchange rate prevailing on 30 September 2013 (i.e. the last business day in September 2013).

# Financial Review

Our net cash generated from operating activities was ¥13,278 million (equivalent to approximately HK\$942 million) for the six months ended 30 September 2014 as compared to ¥12,738 million (equivalent to approximately HK\$1,006 million) for the six months ended 30 September 2013. The increase in our net cash generated from operating activities was mainly due to the increase of ¥225 million (equivalent to approximately HK\$16 million) in operating profit before working capital changes and positive change in working capital of ¥3,399 million (equivalent to approximately HK\$241 million), partially offset by an increase in income taxes and finance expenses paid. The positive effects on working capital for the six months ended 30 September 2014 mainly reflected an increase of ¥3,262 million (equivalent to approximately HK\$231 million) in trade and other payables and other current liabilities, partially offset by an increase of ¥1,564 million (equivalent to approximately HK\$111 million) in inventories.

## **Net cash used in investing activities**

Cash flows from investing activities primarily consist of capital expenditures for property, plant and equipment, including freehold land, buildings and leasehold improvements, tools and equipment, motor vehicles and construction in progress.

Net cash used in investing activities was ¥7,456 million (equivalent to approximately HK\$589 million) and ¥7,576 million (equivalent to approximately HK\$537 million) for the six months ended 30 September 2013 and 2014, respectively. The cash outflow for the six months ended 30 September 2014 was primarily due to the purchase of property, plant, and equipment amounted to ¥7,444 million (equivalent to approximately HK\$528 million) as compared with ¥3,384 million (equivalent to approximately HK\$267 million) for the six months ended 30 September 2013.

## **Net cash used in financing activities**

Our cash used in financing activities primarily consists of repayment of bank borrowings, dividends paid to Shareholders and repayment of finance leases.

For the six months ended 30 September 2014, net cash used in financing activities was ¥10,126 million (equivalent to approximately HK\$718 million) compared to net cash generated from financing activities of ¥6,634 million (equivalent to approximately HK\$524 million) for the six months ended 30 September 2013. The cash outflow for the six months ended 30 September 2014 was primarily due to the dividend payment in the amount of ¥5,200 million (equivalent to approximately HK\$369 million) and repayment of bank loans in the amount of ¥4,365 million (equivalent to approximately HK\$310 million).

## Liquidity

### Net current assets and working capital sufficiency

The following table sets forth our current assets and current liabilities for the periods indicated:

	30 September 2014 (unaudited)		31 March 2014 (audited)	
	(in million)			
	¥	HK\$ <sup>(1)</sup>	¥	HK\$ <sup>(2)</sup>
<b>Current assets</b>				
Inventories	3,429	243	1,801	136
Trade receivables	659	47	563	42
Financial assets measured at fair value through profit or loss	2,038	145	3,875	291
Prizes in operation of pachinko halls	4,244	301	4,324	325
Other current assets	6,036	428	5,547	417
Cash and cash equivalents	30,803	2,185	34,836	2,621
	<b>47,209</b>	<b>3,348</b>	50,946	3,833
<b>Current liabilities</b>				
Trade and other payables	18,439	1,308	19,049	1,433
Derivative financial instruments	–	–	47	4
Borrowings	–	–	1,265	95
Finance lease payables	491	35	869	65
Provisions	1,663	118	1,619	122
Income taxes payables	6,312	448	8,984	676
Other current liabilities	5,713	405	3,077	232
	<b>32,618</b>	<b>2,313</b>	34,910	2,627
<b>Net current assets</b>	<b>14,591</b>	<b>1,035</b>	16,036	1,207

<sup>(1)</sup> Translated into Hong Kong dollars at the rate of ¥14.10 to HK\$1.00, the exchange rate prevailing on 30 September 2014 (i.e. the last business day in September 2014).

<sup>(2)</sup> Translated into Hong Kong dollars at the rate of ¥13.29 to HK\$1.00, the exchange rate prevailing on 31 March 2014 (i.e. the last business day in March 2014).

As at 31 March 2014 and 30 September 2014, our net current assets totalled ¥16,036 million (equivalent to approximately HK\$1,207 million) and ¥14,591 million (equivalent to approximately HK\$1,035 million), respectively, and our current ratio was 1.5 and 1.4, respectively.

# Financial Review

## **Capital expenditure**

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 six months ended 30 September 2013 and 2014 were ¥3,416 million (equivalent to approximately HK\$270 million) and ¥6,375 million (equivalent to approximately HK\$452 million), respectively. Our capital expenditures were primarily related to the improvements of facilities in our halls to enhance our competitiveness in attracting customers and the construction of new halls.

## **CONTINGENT LIABILITIES**

As at 30 September 2014, we had no material contingent liabilities.

## **CAPITAL COMMITMENTS**

The information on capital commitments is provided in note 12 to the interim condensed consolidated financial statements on page 57 of this Interim Report.

## **ACQUISITION AND DISPOSAL**

For the six months ended 30 September 2014, there was no material acquisition and disposal any of our subsidiaries.

## **SIGNIFICANT INVESTMENTS**

Save for the new halls opened, we did not have any significant investments during the six months ended 30 September 2014.

## **EMPLOYEES**

As at 30 September 2014, we had approximately 16,471 employees (31 March 2014: 15,900). We will regularly review remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, housing fund schemes and discretionary incentive. The staff costs incurred for the six months ended 30 September 2014 was ¥24,268 million (equivalent to approximately HK\$1,721 million).

## **CAPITAL STRUCTURE**

### **Principal sources of funds**

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 proceeds from the initial public offering and bank borrowings as capital resources to finance a portion of our operations.

### ***Indebtedness***

The Group had no short-term or long-term borrowing outstanding as at 30 September 2014 (31 March 2014: ¥4,324 million (equivalent to approximately HK\$325 million)).

### ***Loan facilities***

On 28 September 2012, the Company entered into a loan agreement with a syndicate of lenders, which provided for a revolving loan facility in an amount of up to ¥15,000 million. The commitment of the lenders to provide for 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 0.875% 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.

On 31 March 2014, upon expiration of the commitment line agreement dated 31 March 2011, Dynam entered into a new loan agreement with a syndicate of lenders that re-arranged a revolving loan facility in an amount of up to ¥15,000 million. The new revolving loan facility consists of two loans, and the commitment of the lenders to provide loans under the new revolving loan facility is available for a three-year period from the execution date of the original loan agreement. Borrowings under the new revolving loan facility bear interest at the rate of 0.475% 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. As a result of the above rearrangement of the revolving loan facility, the interest rate of the new revolving loan facility was reduced in comparison with the previous loan facility reflecting our sound financial status and increase of international recognition.

As at 30 September 2014, total amount of the revolving loan facility remained available to be drawn down.

At the close of business on 30 September 2014, we had a total amount of approximately ¥34,000 million (equivalent to approximately HK\$2,411 million) of banking facilities including overdraft facilities available to us.

## **MARKET RISKS**

We are exposed to various market risks in the ordinary course of business. Our risk management strategy aims to minimise the adverse effects of these risks on our financial results.

### ***Foreign currency risk***

We have certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of our subsidiaries, but certain business transactions, assets and liabilities are denominated in Hong Kong dollars and United States dollars. We currently do not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. We will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.



# Financial Review

## ***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 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 no significant concentration of credit risk. We have policies in place to ensure that our third party vending machine operators have appropriate credit histories. Amounts due from related companies are closely monitored by our directors. 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.

## ***Interest rate risk***

Our exposure to interest rate risk arises from bank deposits and borrowings. These deposits and borrowings bear interest at variable rates.

The Group had no short-term or long-term borrowing outstanding as at 30 September 2014.

## ***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, exposing us to equity security price risk. Available-for-sale financial assets are investment held from a viewpoint of business strategy and not for short term trading purpose, so we will not sell these investments frequently and shortly after the acquisition. We periodically review the fair values of these investments as well as the financial condition of investees.

# Corporate Governance and Other Information

## CORPORATE GOVERNANCE

The Company is committed to the principles of corporate governance and corporate responsibility consistent with prudent management. The Board believes that such commitment will in the long term serve to enhance Shareholders' value. The Board has set up procedures on corporate governance that comply with the requirements of the Code.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has complied with all applicable code provisions set out in the Code except for the following deviation.

### ***Code Provision E.1.3***

Code provision E.1.3 stipulates that notice for an AGM should be sent to its shareholders by the issuer at least 20 clear business days before the meeting. The AGM for the year ended 31 March 2014 was held on 26 June 2014, while the AGM notice was despatched on 3 June 2014. The above arrangement complied with the Articles of Incorporation prepared pursuant to the Companies Act in respect of the minimum notice period of 21 calendar days (the date of sending and the date of the meeting shall not be included within this period) but the AGM notice period was less than 20 clear business days before the AGM.

Under the Companies Act and the Articles of Incorporation, the Company is required to hold an AGM within three months after the expiration of each financial year (i.e. on or before 30 June 2014 for the financial year ended 31 March 2014). The Companies Act also requires the notice for the AGM to be despatched together with the audited financial statements under the Japanese Generally Accepted Accounting Principles, which must be approved by the Board. On the other hand, the annual report must contain audited financial statements prepared under the IFRS as required under the Listing Rules. As a result, more time was required to finalise the annual report which accompanied the AGM notice despatched to the Shareholders.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as a code of conduct of the Company regarding Directors' transactions of the listed securities of the Company. Employees of the Company who are likely to get unpublished inside information of the Group must abide by the procedure set out in the document thereof. The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the Reporting Period. The Company does not have any case of non-compliance therewith.

# Corporate Governance and Other Information

## THE BOARD OF DIRECTORS

The Board is collectively responsible for the management and operations of the Company, setting fundamental business strategies and policies for the management and operation of the Group's business and monitoring their implementation. It is accountable to the Shareholders for its performance and activities and is the ultimate decision making body of the Group except for those matters that are reserved for approval by Shareholders in accordance with the Articles of Incorporation, the Listing Rules and other applicable laws and regulations. All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its Shareholders at all times. The running of the day-to-day businesses of the Company is delegated by the Board to the Chief Executive Officer and other Executive Officers except that authority is reserved for the Board to approve fundamental business strategies and policies, and all important matters such as interim and annual financial statements, dividend policy, annual budgets, business plans, internal control system, material transactions and other significant operational matters. The delegated functions and responsibilities are periodically reviewed. The Executive Officers are responsible for contributing to the success of the implementation of the policies laid down by the Board in connection with the conduct of the businesses of the Group. The Executive Officers are accountable to the Board and are required to report back to the Board every three months. The Board currently consists of eight Directors, comprising two executive Directors, one non-executive Director and five independent non-executive Directors. Pursuant to the Articles of Incorporation, the Directors are elected by the Shareholders at the AGM. The term of office of a Director shall expire at the end of the next AGM to be held after his appointment. Directors may serve any number of consecutive terms.

The Directors have no financial, business, family or other material/relevant relationships with each other, except that Mr. Yoji SATO who is the executive Director and Chairman of the Board and Mr. Kohei SATO who is the executive Director and the Chief Executive Officer are brothers.

Attendance of each Director at Board meetings, committees' meetings and Shareholders' meetings held during the Reporting Period is as follows:

	Number of meetings held/attended				
	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Shareholders' meetings
Number of meetings held	7	8	5	3	1
<b>Executive Directors</b>					
Mr. Yoji SATO (Chairman of the Board)	7/7	N/A	5/5	3/3	1/1
Mr. Kohei SATO (Chief Executive Officer)	4/4	N/A	N/A	N/A	1/1
<b>Non-executive Director</b>					
Mr. Noriaki USHIJIMA	7/7	N/A	N/A	N/A	1/1
<b>Independent Non-executive Directors</b>					
Mr. Katsuhide HORIBA	7/7	N/A	5/5	3/3	1/1
Mr. Ichiro TAKANO	7/7	8/8	N/A	N/A	1/1
Mr. Yukio YOSHIDA	7/7	8/8	N/A	N/A	1/1
Mr. Mitsutoshi KATO	7/7	N/A	5/5	3/3	1/1
Mr. Thomas Chun Kee YIP	7/7	8/8	N/A	N/A	1/1

## CONFIRMATION ON INDEPENDENCE

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers such Directors to be independent.

During the Reporting Period, Mr. Katsuhide HORIBA, Mr. Ichiro TAKANO, Mr. Yukio YOSHIDA, Mr. Mitsutoshi KATO and Mr. Thomas Chun Kee YIP were outside Directors (shagai torishimariyaku 社外取締役) of the Company. The Directors are of the view that this position does not affect these five persons' independence under Rule 3.13(7) of the Listing Rules because (i) as confirmed by the Company's Japan legal adviser, Soga Law Office, the five persons, as outside Directors (shagai torishimariyaku 社外取締役), were not allowed to perform any executive functions in the Company under the relevant Japanese law and (ii) the five persons are independent of the Company, Directors, Chief Executive Officer, substantial Shareholders, Controlling Shareholders, each of our subsidiaries and each of their respective associates.

## DIRECTOR'S TRAINING

Pursuant to code provision A.6.5 of the Code, directors of an issuer should participate in continuous professional development to develop and refresh their knowledge and skills. All Directors are committed to participating in appropriate continuous professional development activities by ways of attending training or reading material relevant to the Company's business or to the Directors' duties and responsibilities.

## AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has established the audit committee in accordance with the requirements of the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Ichiro TAKANO (chairman), Mr. Yukio YOSHIDA and Mr. Thomas Chun Kee YIP. The primary duties of the audit committee are to assist the Board in providing an independent view of the effectiveness of financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The audit committee also monitors the Directors in fulfilling their fiduciary duties.

The audit committee held 8 meetings during the Reporting Period with an attendance rate of 100%. The interim results for the Reporting Period are unaudited but have been reviewed by the audit committee.

The interim condensed consolidated financial statements for the Reporting Period have also been reviewed by PricewaterhouseCoopers Aarata, the external auditor of the Company, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants.

Due to the retirement of RSM Nelson Wheeler as the auditor of the Company, PricewaterhouseCoopers Aarata has been appointed as the auditor of the Company since 26 June 2014.

## REMUNERATION COMMITTEE

The Company has established the remuneration committee in accordance with the requirements of the Code. The remuneration committee consists of two independent non-executive Directors, namely Mr. Katsuhide HORIBA (chairman) and Mr. Mitsutoshi KATO, and one executive Director, namely Mr. Yoji SATO. Main duties of the remuneration committee are to review and approve the remuneration package of all Directors and other senior management of the Group.

The remuneration committee held 5 meetings during the Reporting Period with an attendance rate of 100%. The remuneration committee reviewed and recommended to the Board for approval of the remuneration package of all Directors and other senior management of the Company.

# Corporate Governance and Other Information

## **NOMINATION COMMITTEE**

The Company has established the nomination committee in accordance with the requirements of the Code. The Nomination committee consists of two independent non-executive Directors, namely Mr. Katsuhide HORIBA (chairman) and Mr. Mitsutoshi KATO, and one executive Director, namely Mr. Yoji SATO. The primary duties of the nomination committee are to make recommendations to the Shareholders on the appointment of the Directors.

The nomination committee held 3 meetings during the Reporting Period with an attendance rate of 100%. The nomination committee recommended the appointment of Directors of the Company for the approval from the AGM held in June 2014.

## **DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS**

The Directors recognise the responsibility for preparing the condensed consolidated financial statements of the Group. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

## **INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING**

The Board is responsible for, among others, overseeing the overall management of compliance risks, including the review and approval of anti-money laundering measures as well as remediation of any issues that arise. The audit committee ensures the implementation, effectiveness and compliance with relevant laws and regulations of the various anti-money laundering measures. The audit committee also reviews any internal control issues highlighted by internal auditing division and regulatory authorities and reports the audit findings to the Board on a regular basis to highlight any deficiencies in the anti-money laundering measures and internal control systems. The Executive Officers develop operational guidelines on anti-money laundering measure and evaluate the measures for effectiveness on a regular basis.

The Group as a pachinko operator is subject to various requirements and restrictions under various Japanese law and regulations. The Company employs internal controls and procedures to ensure our pachinko operations are in compliance with the applicable laws and regulations in Japan and to detect and prevent money laundering activities in our pachinko operations. The internal control measures enable us to detect irregularities and unusual trends in the transactions that take place in the Group's pachinko halls which, if detected, are reported to the Executive Officers for investigation and remediation. In addition, the hall staff are trained to detect irregular customer activities, particularly those involving large amounts of cash.

## SHAREHOLDERS' RIGHTS

### ***Rights to demand that Directors to call a Shareholders' meeting***

Shareholders continuously holding Shares representing not less than 3% of the votes of all Shareholders for six months may demand that the Directors to convene a Shareholders' meeting, 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.

### ***Right to put enquiries to the Board***

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or the registered office in Japan, or by e-mail to [info@dyjh.co.jp](mailto:info@dyjh.co.jp).

### ***Rights to demand that Directors include a proposal in a convocation notice***

Shareholders continuously holding not less than 1% of the votes of all Shareholders or not less than 300 votes of all Shareholders for six months may demand that the Directors, no later than eight weeks 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 and include a proposal in the convocation notices of the Shareholders' meetings.

The 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 websites of the Company and the Stock Exchange.

# Corporate Governance and Other Information

## INVESTOR RELATIONS

To manage its relationship with investment community and its Shareholders, the Company also communicates through announcements and annual and interim reports. All such reports and announcements can also be accessed via the Company's website. The Directors, company secretary or other appropriate members of the senior management also respond to inquiries from Shareholders and investment community promptly.

## CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

During the Reporting Period, Mr. Kohei SATO, Chief Executive Officer, has assumed the office of Executive Director on 26 June 2014. Save as disclosed herein, there were no changes to information required to be disclosed by the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

## INTERIM DIVIDENDS

The Board declared on 27 November 2014 an interim dividend of ¥7 per ordinary share in respect of the six months ended 30 September 2014, payable on 14 January 2015 to Shareholders whose names appear on the Company's share register as at the close of business on 12 December 2014. Based on the 742,850,360 shares in issue as at 27 November 2014, it is expected that the interim dividend payable will amount to approximately ¥5,200 million (equivalent to approximately HK\$369 million). No Shareholder has waived or agreed to waive any dividends.

The exchange rate for the conversion of Japanese yen to Hong Kong dollars for the dividend to be distributed to Shareholders in the currency other than Japanese yen was based on the average currency rates prevailing five business days immediately preceding 27 November 2014.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 30 September 2014, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, will be as follows:

### (i) *Interests in the Company*

Name of Directors/ Chief Executive Officer	Nature of Interest	Number of Shares of the Company <sup>(1)</sup>	Approximate percentage of interest in the Company <sup>(2)</sup>
Mr. Yoji SATO ("Mr. Sato")	Beneficial owner <sup>(3)</sup>	162,522,560	
	Interest in controlled corporation <sup>(3)</sup>	95,810,000	
	Interest in spouse <sup>(3)</sup>	760	
	Other <sup>(5)</sup>	203,571,800	
		461,905,120	62.180%
Mr. Kohei SATO	Beneficial Owner <sup>(4)</sup>	55,139,680	
	Other <sup>(5)</sup>	406,765,440	
		461,905,120	62.180%
Mr. Noriaki USHIJIMA	Beneficial owner	838,000	0.113%
Mr. Ichiro TAKANO	Beneficial owner	20,000	0.003%
Mr. Yukio YOSHIDA	Beneficial owner	140,000	0.019%

Notes:

- (1) All interests stated are long positions.
- (2) There were 742,850,360 Shares in issue as at 30 September 2014.
- (3) Mr. Sato is beneficially interested in 162,522,560 Shares. Mrs. Keiko SATO, his wife, is beneficially interested in 760 Shares, and such interests are deemed to be Mr. Sato's interests under the SFO. Rich-O, which owns 95,810,000 Shares is a company owned as to 99.9% and controlled by Mr. Sato.
- (4) Mr. Kohei SATO, one of the Sato Family Members (as hereinafter defined), has been appointed as executive Director on 26 June 2014 to serve concurrently as Chief Executive Officer. He is beneficially interested in 55,139,680 Shares.
- (5) The Sato family members consist of Mrs. Keiko SATO (wife of Mr. Sato), 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), and Mr. Kiyotaka SATO (uncle of Mr. Sato). The Sato Family Members are the beneficial owners of 203,572,560 Shares. Each of the Sato Family Members is a family member of Mr. Sato and of each other, and is therefore deemed to be interested in the Shares in the Company in which Mr. Sato is interested, and Mr. Sato is deemed to be interested in the Shares in the Company in which each of the Sato Family Members is interested.



# Corporate Governance and Other Information

Save as disclosed above, as at 30 September 2014, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## (ii) Interest in the associated corporation

None of our Directors or chief executive of the Company has any interests or short positions in the shares or underlying shares or debentures of any associated corporation of the Company.

## INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDERS

As at 30 September 2014, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholders	Nature of Interest/Capacity	Number of Shares <sup>(1)</sup>	Approximate percentage of Shareholding <sup>(2)</sup>
Rich-O	Beneficial owner <sup>(3)</sup>	95,810,000	12.898%
One Asia	Beneficial owner <sup>(4)</sup>	80,000,000	10.769%
Mrs. Keiko SATO	Beneficial owner <sup>(5)</sup>	760	
	Interest of spouse <sup>(5)</sup>	162,522,560	
	Other <sup>(6)</sup>	299,381,800	
		461,905,120	62.180%
Mr. Kiyotaka SATO	Beneficial owner	9,900,000	
	Other <sup>(6)</sup>	452,005,120	
		461,905,120	62.180%
Mr. Masahiro SATO	Beneficial owner	45,059,680	
	Other <sup>(6)</sup>	416,845,440	
		461,905,120	62.180%
Mr. Shigehiro SATO	Beneficial owner	46,575,680	
	Other <sup>(6)</sup>	415,329,440	
		461,905,120	62.180%
Mrs. Yaeko NISHIWAKI	Beneficial owner	46,896,760	
	Other <sup>(6)</sup>	415,008,360	
		461,905,120	62.180%

Notes:

- (1) All interests stated are long positions.
- (2) There were 742,850,360 Shares in issue as at 30 September 2014.
- (3) Rich-O is a company owned as to approximately 99.9% and controlled by Mr. Sato. Hence, Mr. Sato is deemed to be interested in the Shares held by Rich-O by virtue of Rich-O being controlled by Mr. Sato.
- (4) One Asia is a general incorporated foundation. The operation and management of One Asia is independent from the Controlling Shareholders and the Controlling Shareholders have no discretion in exercising One Asia's voting rights in the Company. The Shares held by One Asia are not counted as public Shares.
- (5) Mr. Sato is the beneficial owner of 162,522,560 Shares. Mrs. Keiko SATO, his wife, is beneficially interested in 760 Shares, and such interests are deemed to be Mr. Sato's interests under the SFO.
- (6) The Sato Family Members consist of Mrs. Keiko SATO (wife of Mr. Sato), 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), and Mr. Kiyotaka SATO (uncle of Mr. Sato). The Sato Family Members are the beneficial owners of 203,572,560 Shares. Each of the Sato Family Members is a family member of Mr. Sato and of each other, and is therefore deemed to be interested in the Shares in which Mr. Sato is interested, and Mr. Sato is deemed to be interested in the Shares in which each of the Sato Family Members is interested.

Save as disclosed above, as at 30 September 2014, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

On behalf of the Board

**Yoji SATO**

*Chairman of the Board*

27 November 2014

# Report on Review of the Interim Condensed Consolidated Financial Information



**TO THE BOARD OF DIRECTORS OF  
DYNAM JAPAN HOLDINGS CO., LTD.  
(Incorporated in Japan with limited liability)**

## INTRODUCTION

We have reviewed the interim condensed consolidated financial information set out on pages 43 to 59, which comprises the interim condensed consolidated statement of financial position of Dynam Japan Holdings Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 September 2014 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review and to 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.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information referred to above is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers Aarata**

27 November 2014

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# Interim Condensed Consolidated Financial Statements

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

		<b>Six months ended</b>	
		<b>30 September</b>	
	Note	<b>2014</b>	2013
		<b>¥ million</b>	¥ million
		<b>(unaudited)</b>	(unaudited)
<b>Revenue</b>	5	<b>80,682</b>	82,159
Hall operating expenses	6	<b>(64,791)</b>	(67,571)
General and administrative expenses		<b>(2,383)</b>	(1,412)
Other income	7	<b>3,549</b>	3,046
Other operating expenses		<b>(990)</b>	(237)
<b>Operating profit</b>		<b>16,067</b>	15,985
Finance income	8	<b>1,028</b>	552
Finance expenses	9	<b>(2,366)</b>	(402)
<b>Profit before income taxes</b>		<b>14,729</b>	16,135
Income taxes	10	<b>(5,693)</b>	(5,852)
<b>Net profit for the period</b>		<b>9,036</b>	10,283
<b>Net profit attributable to:</b>			
Owners of the Company		<b>9,040</b>	10,315
Non-controlling interests		<b>(4)</b>	(32)
<b>Net profit</b>		<b>9,036</b>	10,283
<b>Earnings per share</b>			
Basic (expressed in ¥)	16	<b>12.17</b>	13.88
Diluted (expressed in ¥)	16	<b>N/A</b>	N/A

# Interim Condensed Consolidated Financial Statements

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Note	Six months ended	
		2014	2013
		¥ million	¥ million
		(unaudited)	(unaudited)
Net profit for the period		9,036	10,283
<b>Other comprehensive income:</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements on defined benefit retirement plans		(1)	(1)
		(1)	(1)
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		405	252
Changes in fair value of available-for-sale financial assets		(5,690)	1,393
— Income tax effect of changes in fair value of available-for-sale financial assets		9	(15)
		(5,276)	1,630
<b>Other comprehensive income for the period, net of tax</b>		<b>(5,277)</b>	1,629
<b>Total comprehensive income for the period</b>		<b>3,759</b>	11,912
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		3,763	11,944
Non-controlling interests		(4)	(32)
<b>Total comprehensive income</b>		<b>3,759</b>	11,912

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2014

	Note	At 30 September 2014 ¥ million (unaudited)	At 31 March 2014 ¥ million (audited)
<b>Non-current assets</b>			
Property, plant and equipment	11,12	95,996	94,605
Intangible assets		1,183	1,408
Available-for-sale financial assets		10,317	15,413
Deferred tax assets		12,571	12,374
Other non-current assets		11,429	11,423
		<b>131,496</b>	135,223
<b>Current assets</b>			
Inventories		3,429	1,801
Trade receivables	13	659	563
Financial assets measured at fair value through profit or loss		2,038	3,875
Prizes in operation of pachinko halls		4,244	4,324
Other current assets		6,036	5,547
Cash and cash equivalents		30,803	34,836
		<b>47,209</b>	50,946
<b>TOTAL ASSETS</b>		<b>178,705</b>	186,169
<b>Current liabilities</b>			
Trade and other payables	14	18,439	19,049
Derivative financial instruments		–	47
Borrowings		–	1,265
Finance lease payables		491	869
Provisions		1,663	1,619
Income taxes payables		6,312	8,984
Other current liabilities		5,713	3,077
		<b>32,618</b>	34,910

# Interim Condensed Consolidated Financial Statements

	Note	At 30 September 2014 ¥ million (unaudited)	At 31 March 2014 ¥ million (audited)
<b>Net current assets</b>		<b>14,591</b>	16,036
<b>Total assets less current liabilities</b>		<b>146,087</b>	151,259
<b>Non-current liabilities</b>			
Derivative financial instruments		–	83
Deferred tax liabilities		<b>63</b>	380
Borrowings		–	3,059
Finance lease payables		<b>172</b>	332
Retirement benefit obligations		–	63
Other non-current liabilities		<b>1,367</b>	1,545
Provisions		<b>3,916</b>	3,787
		<b>5,518</b>	9,249
<b>NET ASSETS</b>		<b>140,569</b>	142,010
<b>Capital and reserves</b>			
Share capital		<b>15,000</b>	15,000
Capital reserve		<b>10,129</b>	10,129
Retained earnings		<b>113,974</b>	110,136
Other component of equity		<b>1,450</b>	6,725
<b>Equity attributable to owners of the Company</b>		<b>140,553</b>	141,990
Non-controlling interests		<b>16</b>	20
<b>TOTAL EQUITY</b>		<b>140,569</b>	142,010

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	(Unaudited)										
	Other component of equity										
	Share capital	Capital reserve	Retained earnings	Investment revaluation reserve	Foreign currency		Other reserves	Total	Total	Non-controlling interests	Total equity
					translation reserve	Other reserves					
¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	¥ million (unaudited)	
At 1 April 2013	15,000	10,129	99,446	115	375	28	518	125,093	-	125,093	
Profit for the period	-	-	10,315	-	-	-	-	10,315	(32)	10,283	
Other comprehensive income for the period	-	-	-	1,378	252	(1)	1,629	1,629	-	1,629	
Total comprehensive income for the period	-	-	10,315	1,378	252	(1)	1,629	11,944	(32)	11,912	
Increase due to acquisition of a subsidiary	-	-	-	-	-	-	-	-	45	45	
2013 final dividend paid	-	-	(5,386)	-	-	-	-	(5,386)	-	(5,386)	
Total changes in equity for the period	-	-	4,929	1,378	252	(1)	1,629	6,558	13	6,571	
At 30 September 2013	15,000	10,129	104,375	1,493	627	27	2,147	131,651	13	131,664	
At 1 April 2014	<b>15,000</b>	<b>10,129</b>	<b>110,136</b>	<b>5,829</b>	<b>894</b>	<b>2</b>	<b>6,725</b>	<b>141,990</b>	<b>20</b>	<b>142,010</b>	
Profit for the period	-	-	<b>9,040</b>	-	-	-	-	<b>9,040</b>	<b>(4)</b>	<b>9,036</b>	
Other comprehensive income for the period	-	-	-	<b>(5,681)</b>	<b>405</b>	<b>(1)</b>	<b>(5,277)</b>	<b>(5,277)</b>	-	<b>(5,277)</b>	
Transfer to retained earnings	-	-	<b>(2)</b>	-	-	<b>2</b>	<b>2</b>	-	-	-	
Total comprehensive income for the period	-	-	<b>9,038</b>	<b>(5,681)</b>	<b>405</b>	<b>1</b>	<b>(5,275)</b>	<b>3,763</b>	<b>(4)</b>	<b>3,759</b>	
2014 final dividend paid	-	-	<b>(5,200)</b>	-	-	-	-	<b>(5,200)</b>	-	<b>(5,200)</b>	
Total changes in equity for the period	-	-	<b>3,838</b>	<b>(5,681)</b>	<b>405</b>	<b>1</b>	<b>(5,275)</b>	<b>(1,437)</b>	<b>(4)</b>	<b>(1,441)</b>	
At 30 September 2014	<b>15,000</b>	<b>10,129</b>	<b>113,974</b>	<b>148</b>	<b>1,299</b>	<b>3</b>	<b>1,450</b>	<b>140,553</b>	<b>16</b>	<b>140,569</b>	



# Interim Condensed Consolidated Financial Statements

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Six months ended 30 September	
	2014 ¥ million (unaudited)	2013 ¥ million (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income taxes	14,729	16,135
Adjustments for:		
Finance expenses	2,366	402
Finance income	(1,028)	(552)
Depreciation	4,858	4,922
Amortisation of intangible assets	307	260
Other adjustments	210	50
Operating profit before working capital changes:	21,442	21,217
Decrease/(increase) in prizes in operation of pachinko halls	80	(774)
Increase in inventories	(1,564)	(754)
(Increase)/decrease in trade receivables	(87)	2
Decrease in other non-current assets	49	185
(Increase)/decrease in other current assets	(484)	2,067
Increase/(decrease) in trade and other payables	628	(3,167)
Increase/(decrease) in other current liabilities	2,634	(34)
(Decrease)/increase in other non-current liabilities	(241)	32
Increase in current provisions	44	103
Cash generated from operations	22,501	18,877
Income taxes paid	(8,872)	(5,790)
Finance expenses paid	(351)	(349)
<b>Net cash generated from operating activities</b>	<b>13,278</b>	12,738
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(7,444)	(3,384)
Purchase of intangible assets	(270)	(132)
Acquisition of subsidiaries	–	(299)
Purchase of available-for-sale financial assets	–	(3,717)
Finance income received	95	70
Other adjustments	43	6
<b>Net cash used in investing activities</b>	<b>(7,576)</b>	(7,456)

		<b>Six months ended</b>	
		<b>30 September</b>	
	Note	<b>2014</b>	2013
		<b>¥ million</b>	¥ million
		<b>(unaudited)</b>	(unaudited)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of bank loans		<b>(4,365)</b>	(646)
Repayment of finance leases		<b>(561)</b>	(602)
Dividends paid	15	<b>(5,200)</b>	(5,386)
<b>Net cash used in financing activities</b>		<b>(10,126)</b>	(6,634)
<b>Effects of exchange rate changes on cash and cash equivalents</b>		<b>391</b>	820
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(4,033)</b>	(532)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>34,836</b>	41,466
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>30,803</b>	40,934

# Interim Condensed Consolidated Financial Statements

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

### 1. GENERAL INFORMATION

Dynam Japan Holdings Co., Ltd. (the “Company”) was incorporated in Japan under the Companies Act on 20 September 2011. The address of its registered office and principal place of business in Japan are 2-25-1-702 Nishi-Nippori, Arakawa-ku, Tokyo 116-0013, Japan and the principal place of business in Hong Kong is Unit A1, 32nd Floor, United Centre, 95 Queensway, Admiralty, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 6 August 2012.

The interim condensed consolidated financial statements of the Company as of 30 September 2014 consist of the Company and its subsidiaries (the “Group”). The principal activities of the Group are operations of pachinko halls and services subordinated to the operation.

The interim condensed consolidated financial information was approved and authorized for issuance by the Board of Directors on 27 November, 2014.

The interim condensed consolidated financial information has been reviewed, but not audited.

### 2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 September 2014 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The interim condensed consolidated financial information should be read in conjunction with the basis presented in the consolidated financial statements for the year ended 31 March 2014 which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

#### Changes in method of presentation (Financial income)

In the interim period ended 30 September 2013, the finance income was included in the other income in the interim condensed consolidated statement of income, however, it is presented separately as the finance income in the interim condensed consolidated statement of income since this year in order to more faithfully represent the results of its operating activities for the period. To reflect this change in the presentation method, ¥552 million, that was previously included in the other income in the interim period ended 30 September 2013, was reclassified from the other income and presented as the finance income.

#### Adoption of new and revised International Financial Reporting Standards

IFRSs	Title	Summaries of new IFRSs and amendments
IAS 36	Impairment of assets	Clarification of the guidelines on disclosures of a recoverable amount of cash-generating units, which include important goodwill and intangible assets with indefinite useful lives.
IFRIC 21	Levies	Accounting for a liability to pay a levy

The Group has adopted IFRIC 21 'Levies'. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligation event is that gives rise to pay a levy, and when should a liability be recognised. The interpretation is adopted retroactively for the interim condensed consolidated financial statements for the six months ended 30 September 2013 and the condensed consolidated financial statements for the year ended 31 March 2014.

As a result, the trade and other payables, and the deferred tax assets as of 31 March 2014 increased by ¥1,244 million and ¥437 million respectively, and the retained earnings as of 31 March 2014 decreased by ¥807 million. The trade and other payables, and the deferred tax assets as of 30 September 2014 increased by ¥506 million and ¥178 million respectively, and the retained earnings as of 30 September 2014 decreased by ¥328 million.

The hall operating expenses, general and administrative expenses and other operating expenses for the six months ended 30 September 2013 decreased by ¥606 million, ¥86 million and ¥2 million respectively. The hall operating expenses, general and administrative expenses and other operating expenses for the six months ended 30 September 2014 decreased by ¥644 million, ¥92 million and ¥2 million respectively.

The impacts on the operating profit for the six months ended 30 September 2013 and for the six months ended 30 September 2014 are increase of ¥694 million and ¥738 million respectively.

Other amendments to IFRSs effective for the six months ended 30 September 2014 does not have a material impact on the Group.

### **3. USE OF ESTIMATES AND JUDGEMENTS**

In the preparation of the Group's interim condensed consolidated financial statements, management is required to make estimates, judgments and assumptions about the reporting amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods, if the revision affects both current and future periods.

The estimates and underlying assumptions which have significant impact on these interim condensed consolidated financial statements are the same as those of the consolidated financial statements for the year ended 31 March 2014, with the exception that income taxes in the interim periods are calculated based upon the tax rate that would be applicable to estimated annual earnings.

# Interim Condensed Consolidated Financial Statements

## 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of financial assets and liabilities are as follows:

	At 30 September 2014		At 31 March 2014	
	¥ million (unaudited)		¥ million (audited)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Available-for-sale financial assets	10,317	10,317	15,413	15,413
Financial assets measured at fair value through profit or loss	2,038	2,038	3,875	3,875
Held-to-maturity investment	10	10	10	10
Loans and receivables (including cash and cash equivalents)	45,511	45,511	41,900	41,900
<b>Total</b>	<b>57,876</b>	<b>57,876</b>	61,198	61,198
<b>Financial liabilities</b>				
Derivative financial instruments	–	–	130	130
Financial liabilities at amortised cost	10,459	10,459	14,006	14,006
<b>Total</b>	<b>10,459</b>	<b>10,459</b>	14,136	14,136

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels of inputs as valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices present actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as available-for-sale financial assets and financial assets measured at fair value through profit or loss.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where they are available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

**Classification by level of assets and liabilities measured at fair value in the interim condensed consolidated financial statement of financial position:**

At 30 September 2014 Description	Fair value measurements using:			Total ¥ million (unaudited)
	Level 1 ¥ million (unaudited)	Level 2 ¥ million (unaudited)	Level 3 ¥ million (unaudited)	
<b>Recurring fair value measurements:</b>				
Financial assets measured at fair value through profit or loss				
Listed securities in Hong Kong	2,038	–	–	2,038
Available-for-sale financial assets				
Listed securities in Japan	925	–	–	925
Listed securities in Hong Kong	9,392	–	–	9,392
	10,317	–	–	10,317
<b>Total</b>	<b>12,355</b>	<b>–</b>	<b>–</b>	<b>12,355</b>

At 31 March 2014 Description	Fair value measurements using:			Total ¥ million (audited)
	Level 1 ¥ million (audited)	Level 2 ¥ million (audited)	Level 3 ¥ million (audited)	
<b>Recurring fair value measurements:</b>				
Financial assets measured at fair value through profit or loss				
Listed securities in Hong Kong	3,875	–	–	3,875
Available-for-sale financial assets				
Listed securities in Japan	921	–	–	921
Listed securities in Hong Kong	14,492	–	–	14,492
	15,413	–	–	15,413
Interest rate swaps	–	130	–	130
<b>Total</b>	<b>19,288</b>	<b>130</b>	<b>–</b>	<b>19,418</b>

During the year, there were no transfers between levels 1, 2 and 3 respectively.

# Interim Condensed Consolidated Financial Statements

## 5. SEGMENT INFORMATION

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.

For management purpose, the Group has carried on a single business geographical location, which is the operations of pachinko halls and those related services in Japan, and all the assets are principally 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 exceeded 10% of the Group's revenue.

### REVENUE

	Six months ended 30 September	
	2014	2013
	¥ million (unaudited)	¥ million (unaudited)
Gross pay-ins	425,297	470,532
Less: Gross payouts	(344,615)	(388,373)
Revenue	80,682	82,159

## 6. HALL OPERATING EXPENSES

	Six months ended 30 September	
	2014	2013
	¥ million (unaudited)	¥ million (unaudited)
Advertising expenses	2,025	2,300
Cleaning and ancillary services expenses	1,617	2,281
Depreciation charges expenses	4,779	4,895
G-prize expenses	2,455	2,636
Hall staff costs	22,754	22,602
Pachinko and pachislot machine expenses	16,729	18,769
Rental expense	5,422	5,188
Repair and maintenance expenses	1,188	1,515
Utilities expenses	3,046	2,786
Others	4,776	4,599
	<b>64,791</b>	67,571

## 7. OTHER INCOME

	Six months ended 30 September	
	2014	2013
	¥ million (unaudited)	¥ million (unaudited)
Commission from vending machines and in-store sales	2,039	2,102
Income from forfeiture of unutilised balls and tokens	201	170
Income from catering services	157	-
Net gains on disposals of used machines	153	125
Rental income	271	444
Reversal of impairment loss on property, plant and equipment	318	-
Others	410	205
	<b>3,549</b>	3,046



# Interim Condensed Consolidated Financial Statements

## 8. FINANCE INCOME

	Six months ended 30 September	
	2014 ¥ million (unaudited)	2013 ¥ million (unaudited)
Bank interest income	40	2
Dividends income	55	12
Foreign exchange gain, net	739	482
Others	194	56
	<b>1,028</b>	552

## 9. FINANCE EXPENSES

	Six months ended 30 September	
	2014 ¥ million (unaudited)	2013 ¥ million (unaudited)
Interest expense	41	95
Amortization of syndicated bank loan charges	185	265
Loss from changes in fair value of financial assets measured at fair value through profit or loss	1,934	—
Others	206	42
	<b>2,366</b>	402

## 10. INCOME TAXES

	Six months ended 30 September	
	2014 ¥ million (unaudited)	2013 ¥ million (unaudited)
Current taxes	6,199	7,970
Deferred taxes	(506)	(2,118)
	<b>5,693</b>	5,852

The estimated average tax rate used in Japan is 36% for six months ended 30 September 2014 and 38% for six months ended 30 September 2013. Taxation for overseas is calculated at the rates of taxation prevailing in the relevant jurisdictions.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2014, the Group acquired property, plant and equipment of ¥6,375 million (2013: ¥3,416 million).

## 12. COMMITMENTS

The commitments at the end of the reporting period are as follows:

	<b>At 30 September 2014 ¥ million (unaudited)</b>	<b>At 31 March 2014 ¥ million (audited)</b>
Capital commitment for purchase of property, plant and equipment	<b>1,378</b>	1,221
	<b>1,378</b>	1,221

## 13. TRADE RECEIVABLES

The Group normally allows credit terms to customers ranging from 30 to 60 days. Overdue balances are reviewed regularly by the directors.

The aging analysis of the trade receivables are as follows:

	<b>At 30 September 2014 ¥ million (unaudited)</b>	<b>At 31 March 2014 ¥ million (audited)</b>
1 to 30 days	<b>555</b>	546
31 to 60 days	<b>83</b>	17
Over 60 days	<b>21</b>	–
	<b>659</b>	563

# Interim Condensed Consolidated Financial Statements

## 14. TRADE AND OTHER PAYABLES

	At 30 September 2014 ¥ million (unaudited)	At 31 March 2014 ¥ million (audited)
Trade payables	1,348	1,722
Other payables	7,309	8,165
Accrued staff costs	7,610	8,251
Consumption taxes payables	2,140	845
Others	32	66
	<b>18,439</b>	19,049

(\*) It represents consumption tax payable, assets acquisition tax payable, business office tax payable and withholding tax payable.

The aging analysis of the Group's trade payables, based on invoice date, is as follows:

	At 30 September 2014 ¥ million (unaudited)	At 31 March 2014 ¥ million (audited)
1 to 30 days	1,331	1,697
31 to 60 days	3	1
Over 60 days	14	24
	<b>1,348</b>	1,722

## 15. DIVIDENDS

During the six months ended 30 September 2014 and 2013, the Company made the following distributions, which is shown in the interim condensed consolidated statement of changes in equity.

	Six months ended 30 September			
	2014		2013	
Dividends declared and paid/payable to its shareholders by:	Dividend per share ¥	Total Dividends ¥ million (unaudited)	Dividend per share ¥	Total Dividends ¥ million (unaudited)
Final dividend paid	7.00	5,200	7.25	5,386
		5,200		5,386

On 27 November 2014, the Board of Directors declared an interim dividend of ¥7.00 per ordinary share of the Company, which is payable on 14 January 2015 to the shareholders of the Company.

## 16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Six months ended 30 September	
	2014 ¥ million (unaudited)	2013 ¥ million (unaudited)
Earnings for the purpose of calculating basic earnings per share	9,040	10,315
Weighted average number of shares (shares)	742,850,360	742,850,360
Basic earnings per share (¥)	12.17	13.88

No diluted earnings per share was presented for the six months ended 30 September 2014 and 2013 as there were no dilutive potential ordinary shares in existence during the six months ended 30 September 2014 and 2013.

# Definitions

In this Interim Report, unless the context otherwise requires, the following words and expressions shall have the following meanings.

“AGM”	annual Shareholders’ general meeting of the Company
“Articles of Incorporation”	the articles of incorporation of the Company as amended and supplemented from time to time
“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 incorporated with limited liability. Beijing GEO is a subsidiary held as to 100% through Dynam Hong Kong by the Company (registration number 110000410209201)
“Board” or “Board of Directors”	the board of Directors of the Company
“business day”	any day (other than a Saturday, Sunday or public holiday of Japan) on which banks in Japan 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 0115-01-017394). Business Partners is a subsidiary held as to 100% through Dynam Hong Kong by the Company
“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 is a wholly-owned subsidiary of the Company
“Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Companies Act”	the Companies Act of Japan* (kaisha hou 会社法) (Act No. 86 of 2005, as amended)
“Company”	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 (kabushikigaisha 株式会社) incorporated in Japan with limited liability under the Companies Act on 20 September 2011 (registration number 0115-01-017114)
“Controlling Shareholder(s)”	Has the meaning ascribed to it under the Listing Rules, and in the context of this report, means the controlling Shareholders of our Company, namely Mr. Yoji SATO, Rich-O, and each of the Sato Family Members
“Director(s)”	the director(s) of the Company
“Dynam”	DYNAM Co., Ltd.* (株式会社ダイナム), a stock company 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 the Company
“Dynam Business Support”	Dynam Business Support Co., Ltd.* (株式会社ダイナムビジネスサポート), a stock company incorporated in Japan with limited liability under the Companies Act on 1 April 2013 (registration number 0115-01-010575). Dynam Business Support is a wholly-owned subsidiary of the Company

“DYNAM Group” or “Group”	the Company and its subsidiaries at the relevant point in time
“Dynam Hong Kong”	Dynam Hong Kong Co., Ltd., a stock company incorporated in Hong Kong with limited liability on 7 January 2013 (registration number 1848306). Dynam Hong Kong is a wholly-owned subsidiary of the Company
“Dynam Investment”	Dynam Investment Co., Ltd.* (株式会社ダイナム総合投資), a stock company (kabushiki-gaisha 株式会社) incorporated in Japan with limited liability under the Companies Act on 9 April 2003 (registration number 0115-01-010317). Dynam Investment was absorbed into HUMAP Japan through an absorption-type merger on 1 April 2013
“EBITDA”	earning before interest, taxes, depreciation and amortization
“Erin International”	Erin International Co., Ltd., a company incorporated in Mongolia with limited liability on 30 May 2003 (registration number 9019015133). As at the date of this Interim Report, Erin International is held as to 87.61% through Dynam Hong Kong by the Company
“Erin Town” or “Erin Town Project”	the construction project conducted by Erin International to build the apartments compound in Ulaanbaatar, Mongolia. The housing compound is included in the middle term mission of Mongolian Government programme named ‘New Constructive’. The Erin Town project is planned to provide total housing solutions with 12 floors buildings, comfortable surroundings with car parking, pedestrian roads and lawns as at the date of this Interim Report
“general prize”	any prize offered by a pachinko hall that is not a G-prize
“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 held as to 100% through HUMAP Japan by the Company
“GIA/GIF Law”	the General Incorporated Associations and General Incorporated Foundations Law of Japan* (ippan shadan houjin oyobi ippan zaidan houjin ni kansuru 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)
“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
“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 at halls
“high playing cost machines”	pachinko machines with a playing cost of 4-yen per pachinko ball and pachislot machines with a playing cost of 20-yen per pachislot token

# Definitions

“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“HUMAP Japan”	HUMAP Japan Co., Ltd.* (株式会社日本ヒューマップ), 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 Japan is a wholly-owned subsidiary of the Company. On 1 April 2013, HUMAP Japan has effected an absorption-type merger of Pachinko Leasing and Dynam Investment
“IFRS”	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
“IGG”	IGG Inc, a company incorporated in Cayman Islands and engaged in the development of online game software, and the operation of online games. IGG shares are listed on the GEM Board of the Stock Exchange (Stock Code: 08002)
“Japan Productivity Center”	a public interest incorporated foundation (koueki zaidan houjin 公益財団法人) established in 1955 under the Act on Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundations* (koueki shadan houjin oyobi koueki zaidan houjin tou no ninte ni kansuru houritsu 公益社団法人及び公益財団法人の認定等に関する法律) to promote the productivity in Japan’s industrial society and in improving the quality of people’s lives
“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 is held as to 100% through HUMAP Japan by the Company
“Leisure White Paper”	Research report on leisure industry and its market trend published by Japan Productivity Center
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“low playing cost machines”	pachinko machines with playing costs less than 4-yen per pachinko ball and pachislot machines with playing costs of less than 20-yen per pachislot token
“Macau”	The Macau Special Administrative Region of the PRC
“Macau Legend”	Macau Legend Development Limited, a company incorporated in the Cayman Islands and whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 01680)
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent of and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules

“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 30 September 2014, One Asia was interested in 80,000,000 Shares, representing approximately 10.77% of our entire issued share capital
“our”, “we”, or “us”	The Company, or where the context requires, the Company and its subsidiaries collectively
“outside director”	outside directors (shagai torishimariyaku 社外取締役) of the Company. Outside directors (shagai torishimariyaku 社外取締役) has a different meaning under the Companies Act when compared with the meaning of “independent non-executive director” under the Listing Rules. Directors have considered all of the factors under Rule 3.13 of the Listing Rules and are satisfied with the independence of our independent non-executive Directors
“pachinko balls” or “balls”	small metal balls used to play pachinko games
“Pachinko Chain Stores Association” or “PCSA”	Pachinko Chain Stores Association* (パチンコ・チェーンストア協会), a leading industry organization in the pachinko industry of Japan, promoting pachinko as a mean of entertainment and leisure among the general public in Japan
“Pachinko 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). Pachinko Leasing was absorbed into HUMAP Japan through an absorption-type merger on 1 April 2013
“pachislot tokens” or “tokens”	small metal tokens used to play pachislot games
“PCSA Challenge Book 2015”	an industry guide book and activity report of the member companies of PCSA published thereby every year
“Personal System”	a system technology which records the number of pachinko balls and pachislot tokens earned onto a card
“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 0115-01-013526). P Insurance is held as to 100% through HUMAP Japan by the Company
“PRC”	The People’s Republic of China, excluding, for the purpose of this Interim Report, Hong Kong, Macau and Taiwan
“Reporting Period”	the period from 1 April 2014 to 30 September 2014
“Rich-O”	Rich-O Co., Ltd.* (リッチオ株式会社), a stock company incorporated in Japan with limited liability on 1 August 2006 under the Companies Act (registration number 0115-01-011944)



# Definitions

“Rich-O Korea”	Rich-O Korea Co., Ltd.* (株式会社リッチオ코리아), a company incorporated with limited liability in South Korea on 27 February 2006 (registration number 110111-3408732). Rich-O Korea is held as to 100% through Dynam Hong Kong by the Company
“Sato Family Members”	The Sato Family Members are 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. Yoji SATO. Each of the Sato Family Members is a Controlling Shareholder
“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
“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 held as to 100% through Dynam Business Support by the Company
“ <i>Shinrai no Mori</i> ” (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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial Shareholders”	has the meaning ascribed to it under the Listing Rules
“ <i>Traditional</i> ”	our pachinko hall type featuring primarily high playing cost games
“ <i>Yuttari Kan</i> ” (ゆったり館)	our pachinko hall brand and hall type featuring primarily low playing cost games

Note: 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.

\* for identification purpose only



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.\*

