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)

Annual Report 2016

Stock Code: 06889

* For identification purpose only

Contents

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.

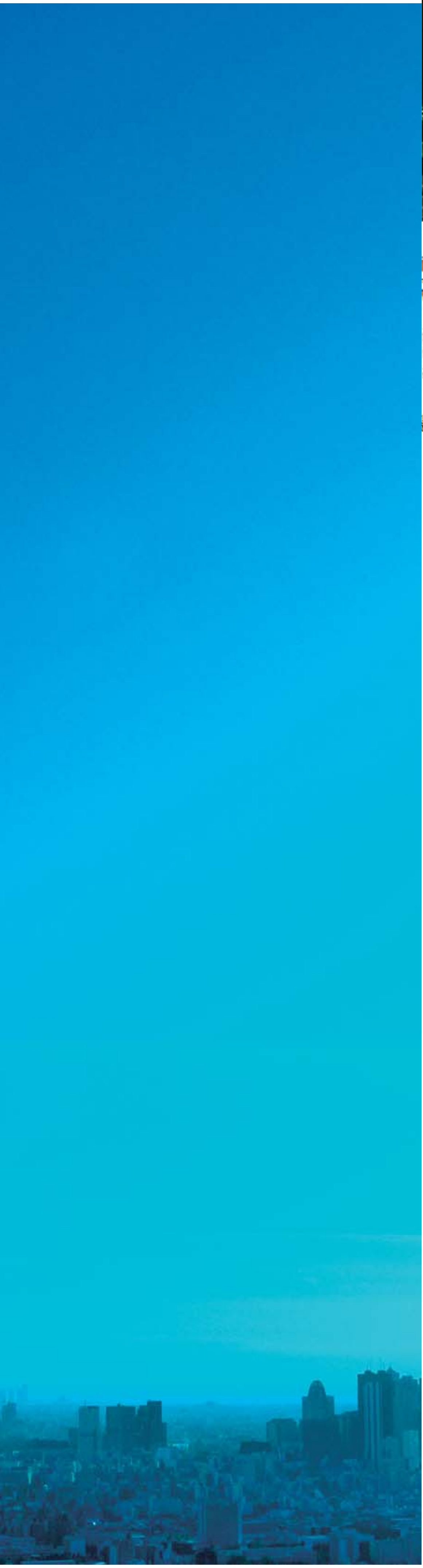
The DYNAM Group maintains a long-term commitment to building trust and encouraging dreams.

Three Principles of Actions

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	Kohei SATO *(Chief Executive Officer) (also appointed as the Chairman of the Board on 24 June 2015)* Yoji SATO *(appointed as the Senior Corporate Advisor of the Board on 24 June 2015)* Haruhiko MORI *(appointed on 24 June 2015)*
Non-executive Director	Noriaki USHIJIMA
Independent Non-executive Directors	Ichiro TAKANO Mitsutoshi KATO Thomas Chun Kee YIP Eisho KUNITOMO *(appointed on 24 June 2015)* Kei MURAYAMA *(appointed on 24 June 2015)* Katsuhide HORIBA *(retired on 24 June 2015)* Yukio YOSHIDA *(retired on 24 June 2015)*
Audit Committee	Ichiro TAKANO *(Chairman)* Thomas Chun Kee YIP Eisho KUNITOMO *(appointed on 24 June 2015)* Yukio YOSHIDA *(retired on 24 June 2015)*
Remuneration Committee	Mitsutoshi KATO *(Chairman) (appointed on 24 June 2015)* Kohei SATO *(appointed on 24 June 2015)* Kei MURAYAMA *(appointed on 24 June 2015)* Yoji SATO *(retired on 24 June 2015)* Katsuhide HORIBA *(retired on 24 June 2015)*
Nomination Committee	Mitsutoshi KATO *(Chairman) (appointed on 24 June 2015)* Kohei SATO *(appointed on 24 June 2015)* Kei MURAYAMA *(appointed on 24 June 2015)* Yoji SATO *(retired on 24 June 2015)* Katsuhide HORIBA *(retired on 24 June 2015)*

Corporate **Information**

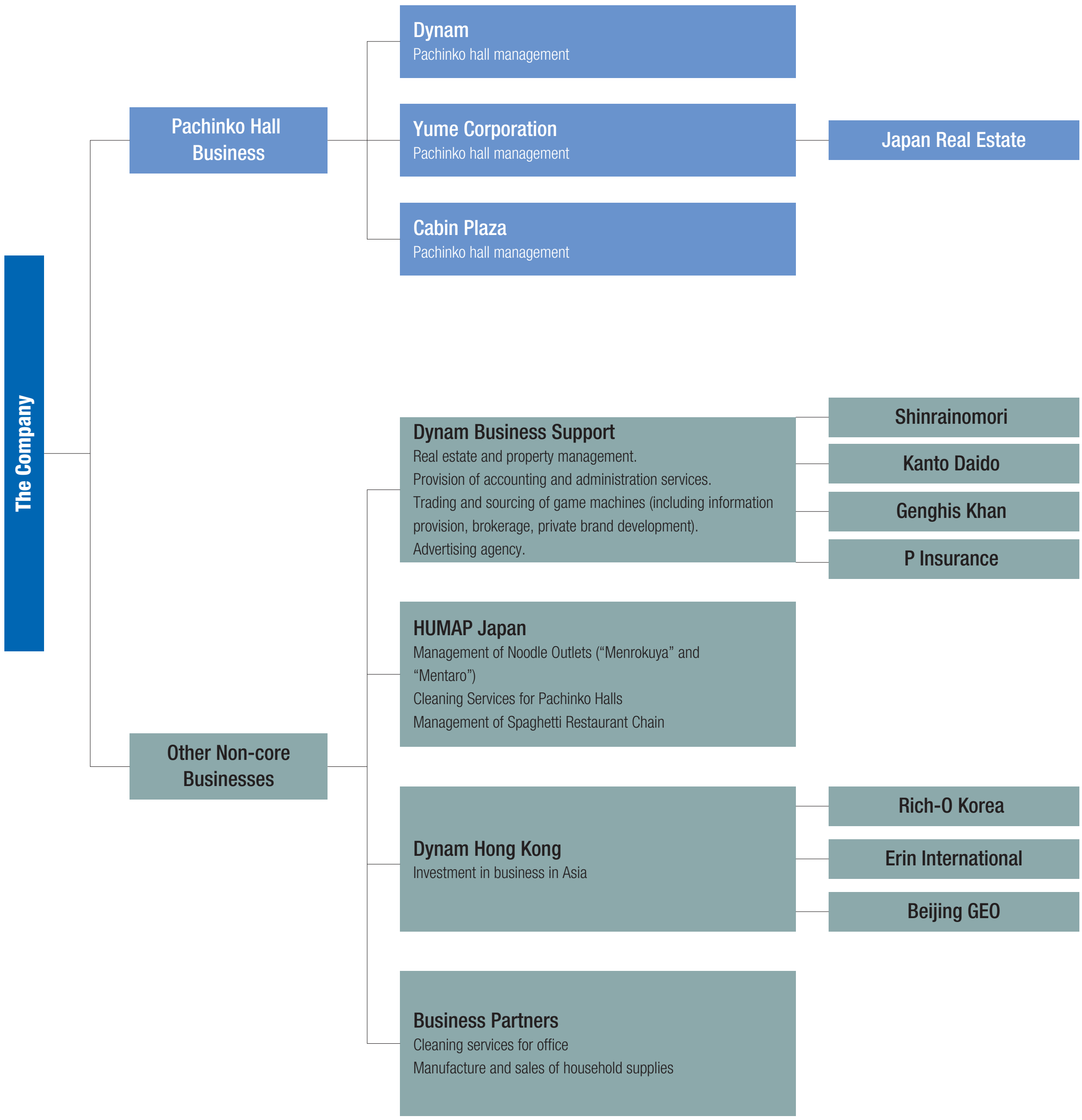
Headquarters and Registered Office	2-25-1-702 Nishi-Nippori Arakawa-ku Tokyo, 116-0013 Japan
Principal Place of Business in Hong Kong	Unit A1, 32nd Floor, United Centre 95 Queensway, Admiralty Hong Kong
Corporate Website	www.dyjh.co.jp
Investor Relations	E-mail: info@dyjh.co.jp
Stock Code	06889
Joint 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 7 subsidiaries.

As at 26 May 2016



On 1 November 2015, Yume Corporation became a wholly-owned subsidiary of the Company and member of the Group by way of share exchange. Details of the acquisition are set out in the Company's announcements dated 26 August 2015, 25 September 2015 and 2 November 2015. Also, please refer to note 46 to the consolidated financial statements on page 148 of this Annual Report.

PACHINKO HALL OPERATION AS OUR CORE BUSINESS

Largest Pachinko Hall Operator in Japan

The Company is a holding company which directly holds shares of 7 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 442 halls as at the end of March 2016.

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 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 service that allows customers to select a 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

Our History and **Development**

The Group started out about 50 years ago with the establishment of Sawa Shoji Co., Ltd. in 1967. Since then, we have been working to realize our vision of reinventing pachinko as a genuine public entertainment that everyone can enjoy.

In 1993, we pioneered the theory of chain store operations in the industry. Aiming to achieve multiple-hall development as a source of growth, we have steadily expanded the number of halls. In 2007, we undertook the full-fledged launch of the dedicated operation of low playing cost halls, and we are now developing a new business model that proposes gaming as a pastime-oriented activity.

In 2012, the Company became the world's first pachinko hall operator to list its shares on the Main Board of the Hong Kong Stock Exchange.

We have the largest number of pachinko halls in the industry, and will continue aiming to provide pachinko as a genuine public entertainment, striving to be a company that is trusted and needed by its customers and society.

1967

Establishment

Sawa Shoji Co., Ltd. is established.
Two halls start operations.

1988
10
halls

1987

The company name changed to Dynam

Started full-scale expansion of the pachinko hall business.

1989 Dynam recruited the first new graduates.
Shibata hall, the first suburban hall, opened (Niigata Prefecture).

1996
50
halls

1994

The company's first wood-construction hall is built.

Hall opening costs are rationalized in line with business expansion.

1993 Dynam became a member of the Pegasus Club, a chain store research organization.

1998 Dynam established the Dynam Union, the first labor union in the pachinko industry.

2001
100
halls

2009
300
halls

2015
400
halls

2016
442
halls
As of March 31, 2016

2007
Full-scale launch of low playing cost pachinko halls.

DYNAM Yuttari Kan was established as a new brand to emphasize the entertainment aspect of pachinko halls.

2011
Dynam Japan Holdings was established.

2012
Listed on the Main Board of the Hong Kong Stock Exchange.

Dynam Japan Holdings becomes the first pachinko hall operator with its shares listed on the Main Board of the Stock Exchange.

2013
Dynam Hong Kong was established.

The new company strengthened business expansion and management functions in Asia.

2015
Other companies in the pachinko hall industry were acquired into the Group.

Yume Corporation, an operator of 39 halls, was acquired into the Group.

50 years

Financial **Highlights**

	Year ended 31 March						
	2016		2015		2014	2013	2012
	(in millions)						
	¥	**HK$**	¥	HK$	¥	¥	¥
Gross pay-ins	**844,885**	**58,148**	826,072	53,261	922,172	929,158	908,309
Less: gross payouts	**(688,974)**	**(47,417)**	(671,516)	(43,296)	(756,418)	(765,197)	(743,231)
Revenue	**155,911**	**10,730**	154,556	9,965	165,754	163,961	165,078
Hall operating expenses	**(138,326)**	**(9,520)**	(134,659)	(8,682)	(135,940)	(133,904)	(138,785)
General and administrative expenses	**(5,798)**	**(399)**	(5,456)	(352)	(4,086)	(3,112)	1,754
Other income	**8,184**	**563**	6,850	442	7,139	9,250	6,572
Other operating expenses	**(1,805)**	**(124)**	(1,947)	(126)	(1,132)	(1,906)	(874)
Operating profit	**18,166**	**1,250**	19,344	1247	31,735	34,289	30,237
Finance income	**311**	**21**	2,151	139	3,660	–	–
Finance expenses	**(1,074)**	**(74)**	(1,977)	(127)	(781)	(853)	(1,833)
Profit before income taxes	**17,403**	**1,198**	19,518	1,258	34,614	33,436	28,404
Income taxes	**(6,864)**	**(472)**	(8,259)	(532)	(13,377)	(12,511)	(12,506)
Net profit for the year	**10,539**	**725**	11,259	726	21,237	20,925	15,898
Net profit attributable to:							
Owners of the Company	**10,544**	**726**	11,303	729	21,255	20,925	15,898
Non-controlling interests	**(5)**	**(Δ)**	(44)	(3)	(18)	–	–
	10,539	**725**	11,259	726	21,237	20,925	15,898
Earnings per share							
Basic	**¥13.9**	**HK$1**	¥15.2	HK$1	¥28.6	¥29.7	¥25.2
Diluted	**N/A**	**N/A**	N/A	N/A	N/A	N/A	N/A
EBITDA(*)	**30,494**	**2,099**	30,637	1,975	42,702	42,312	41,520

* EBITDA is defined as earnings before finance costs, taxation, depreciation, amortisation, net foreign exchange gain or loss and fair value gain or loss on financial assets at fair value through profit or loss.

Δ Less than 0.5 million

	At 31 March						
	2016		2015		2014	2013	2012
	(in millions)						
	¥	**HK$**	¥	HK$	¥	¥	¥
Non-current assets	**145,944**	**10,044**	132,213	8,524	135,223	117,756	119,590
Current assets	**43,240**	**2,976**	48,723	3,141	50,946	50,568	36,871
Current liabilities	**30,838**	**2,122**	31,380	2,023	34,910	31,873	33,384
Net current assets	**12,402**	**854**	17,343	1,118	16,036	18,695	3,487
Total assets less current liabilities	**158,346**	**10,898**	149,556	9,643	151,259	136,451	123,077
Non-current liabilities	**25,727**	**1,771**	14,503	935	9,249	11,357	29,603
Total equity	**132,619**	**9,127**	135,053	8,707	142,010	125,094	93,474

CURRENCY TRANSLATIONS

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

1. ¥14.53 to HK$1.00, the exchange rate prevailing on 31 March 2016 (i.e. the last business day in March 2016).

2. ¥15.51 to HK$1.00, the exchange rate prevailing on 31 March 2015 (i.e. the last business day in March 2015).

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.

Top **Message**

We will solidify our position as the industry's leading company with an eye to realizing our vision and sustainable growth.

Kohei Sato
Chairman of the Board and
Chief Executive Officer

New Steps Toward Sustainable Growth

I would like to open this message by expressing my heartfelt appreciation to all of the Group's stakeholders, including our Shareholders and other investors, for their continuous support and understanding.

It has been almost a year since I was appointed as Chairman of the Board in June 2015. At that time, companies in the pachinko hall industry had to face a challenging business environment in which customer footfall has waned in step with a decline in consumer exuberance.

Under these circumstances, the Group decided to return to the basics of chain store management. Subsequently, we focused on interpersonal relationships with customers as our theme in shoring up our operation acquired and halls while banding together to enhance our earnings. Meanwhile, on 1 November 2015, a nationwide chain of 39 pachinko halls was merged into our Group upon the share exchange with Yume Corporation.

These new steps had a gradual yet progressive impact on the business results of the Group over the year, in which revenue increased by ¥1,355 million (approximately HK$93 million) or 0.9%, to ¥155,911 million (approximately HK$10,730 million) for the fiscal year ended 31 March 2016.

This year will mark the fifth year since our shares were listed on the Main Board of the Hong Kong Stock Exchange in August 2012. The Group has begun taking new steps for growth with acquisition of other companies in the industry, and will return to the basics of chain store management as we band together to further enhance our earnings.

Our Vision of Reinventing Pachinko as a Genuine Form of Public Entertainment

Our vision is to reinvent pachinko through sustainable business growth as a genuine form of public entertainment that everyone can enjoy.

The pachinko hall we are aiming for is a comfortable hall where the staff is well trained and the facilities are up to date. It is also a hall featuring the most attractive and fun game machines to play, where customers can enjoy themselves without spending a large amount of money. Our vision is to firmly establish pachinko halls as a form of everyday entertainment in the same way as restaurants and movie theaters. The halls are not meant to be an entertainment extravaganza like an expensive trip to a casino in some faraway country. We want to make pachinko something that people can enjoy during their spare time. Changing the industry in this way is the first step to gain social acceptance from all quarters, and the most important decision we can make in developing pachinko as a sustainable business.

Top **Message**

To achieve this vision, the Group must further solidify its position as the pachinko industry's leading company. We will do so by collaborating and sharing our vision with various companies in the industry and a wide cross section of society, while striving above all to increase our market share.

There are currently around 3,500 companies operating pachinko halls in Japan. In terms of the number of game machines installed in the halls, the 10 largest companies have a share of about 15% of the market. In other words, the pachinko hall industry is a structurally fragmented market with many small operators. Moreover, in the fiercely competitive business environment the industry faces, the small operators are being weeded out of business, while companies such as ours have grown to where we can list our stocks. As an outlook, we think that pachinko hall companies which are adept at merger and acquisition and other investment techniques will continue to absorb other operators and consolidate the industry.

The consolidation of Yume Corporation as a member of the Group reflects this structural change in the industry. As a listed company, we can maximize our gain from industry consolidation, and I think that we are in a superior position to realize our vision. By continuing to raise our market share, we will broaden the scope of stakeholders who share our vision and foster a trusty and inspirational relationship with them.

Aiming for Sustained Growth in Earnings through Chain Store Management

Since chain store management is one of our management policies, the Group firmly believes that the consistent and practical application of the chain store business model will be our source of sustainable growth.

Economies of scale from multiple-hall development can be realized by opening new pachinko halls and acquiring other pachinko hall operators into Group, and is the best way to maximize mass market returns under our business model. Furthermore, our greatest mass market strength and characteristic are that we have built a structure for opening and operating our halls at low cost. Combining mass market growth in revenue with low cost operations will enable the Group to build up a stream of income both steadily and sustainably.

In the fiscal year ended March 2016, we opened 14 halls mainly on low playing cost games. In addition, as I mentioned before, Yume Corporation and its chain of 39 halls joined the Group. Having opened 3 new halls since April 2016, the Group's chain was 444 halls (as of 26 May 2016) with a total installation of more than 200,000 game machines.

We will build on our achievements to establish a firmer position as a leading company in the industry, and are determined to solidify our platform for sustainable growth. There's no shadow of doubt in my mind that this will push the Group's overall level of earnings higher over the long run and enhance our corporate value both substantially and comprehensively.

Pachinko Halls Will Take the Lead in Building Stronger Relationships of Trust with Customers and Local Communities

Building stronger relationships of trust with a broad cross section of society, including customers visiting our pachinko halls and people of the communities where our pachinko halls are located, is vital to ensuring the Group's sustainable growth over the long term. That is why we have established the Principle of Customer First and Social Contribution as part of our management policies.

Conforming to the above, we have developed frameworks for incorporating proposals from pachinko hall staff, who are in daily contact with our customers, into our services. Our staff from the operational frontline takes the lead in improving services. Our pachinko halls, the front line of our operations, are the starting point for improving our services to customers. We will continue to operate pachinko halls so as to deliver the utmost customer satisfaction at all of our nationwide halls.

Our pachinko halls are also proactively building stronger relationships with people of their communities mainly through participating in events and clean-up activities held by local communities, as well as charitable activities. Additionally, the operational front line and head office are working in unison to solve social issues such as addiction to pachinko and pachislot (i.e. getting absorbed) and the problem of children being left unattended in parked vehicles*, so that the Group is continuously being widely trusted by society.

The Group will celebrate its 50th founding anniversary in the year 2017, which will mark a major milestone in its history. Looking ahead to the next 50 years, the Group will continue to cultivate trust and dreams in line with our corporate philosophy, as we seek to achieve sustainable growth.

Kohei SATO
Chairman of the Board and
Chief Executive Officer

26 May 2016

* The problem of leaving children unattended in parked vehicles in parking lots by customers driving to pachinko halls.

Biographies of
Directors and Senior Management

Executive Director

Chairman of the Board and Chief Executive Officer

Mr. Kohei SATO

佐藤公平

Age 61

Mr. Kohei SATO was appointed as our Chief Executive Officer in January 2013 and our executive Director in June 2014, and also appointed as Chairman of the Board in June 2015.

Mr. Kohei SATO graduated from Tokyo University of Agriculture and Technology in March 1980 with a bachelor's degree in engineering. He received a master's degree in mechanical engineering from Tennessee Technological University in August 1982.

Mr. Kohei SATO is the Chairman and director of Dynam, our wholly-owned subsidiary, since June 2015. He is primarily responsible for the Group's overall strategic planning and the management of the Group's business operations.

Mr. Kohei SATO joined Dynam in June 1995. He spent the majority of his career at Dynam and has held several senior management positions across different departments in Dynam. Between 1995 and 2000, he headed the corporate planning office and the sales department of Dynam, until he was appointed representative director (*daihyo torishimariyaku* 代表取締役) in June 2000. With his previous and current positions in Dynam, Mr. Kohei SATO has accumulated around 21 years' experience in the pachinko industry.

Prior to joining our Group, Mr. Kohei SATO worked for at Takeda Riken Industry Co., Ltd. (currently known as Advantest Corporation), of which shares are listed on the New York Stock Exchange (NYSE: ATE). In June 1985, he joined Kodak Co., Ltd., a subsidiary of Eastman Kodak Co., of which shares were listed of the New York Stock Exchange (NYSE: EK).

Mr. Kohei SATO is the younger brother of Mr. Yoji SATO.

In the last three years, Mr. Kohei SATO has not been a director of any public company of which securities are listed on the securities market in Hong Kong or overseas.

Executive Director

Senior Corporate Advisor of the Board

Mr. Yoji SATO

佐藤洋治

Age 70

Mr. Yoji SATO was appointed as our executive Director with effect from 20 September 2011, the date of incorporation of the Company. He is also the Senior Corporate Advisor of the Board. Mr. Yoji Sato is primarily responsible for the management of the Group's business operations.

Mr. Yoji SATO graduated from Waseda University in March 1968 with a bachelor's degree in commerce.

Raised in Japan, Mr. Yoji SATO joined the Group in January 1970 and since then, he has been instrumental in our business expansion and has developed the Group from a small-scale operation with two pachinko halls in Tokyo to the largest pachinko halls operators with a chain store operation of 442 pachinko halls in 46 prefectures across Japan as at 31 March 2016. Mr. Yoji SATO has spent over four decades with the Group, during which he obtained extensive experience in the management and operation of pachinko halls, corporate governance, strategic planning and financial management. The success of the Group and his personal attributes earned him wide recognition as a leading figure and pioneer in the pachinko industry in Japan. Mr. Yoji SATO is an advisor of the Pachinko Chain Stores Association (パチンコ•チェーンストア協会). The Pachinko Chain Stores Association is one of the leading industry organisation in the pachinko industry of Japan, promoting pachinko as a mean of entertainment and leisure among the general public in Japan.

Mr. Yoji SATO was the chairman of the board and chief executive officer (*daihyo shikkoyaku* 代表執行役) of Dynam Holdings Co., Ltd* (株式会社ダイナムホールディングス) ("**Dynam Holdings**") between March 2007 and September 2011. He resigned from these positions following the incorporation of the Company. Save for being a controlling shareholder of Dynam Holdings, Mr. Yoji SATO had no on-going executive or non-executive roles in Dynam Holdings.

Mr. Yoji SATO is the elder brother of Mr. Kohei SATO, the Chairman of the Board and Chief Executive Officer of the Company.

Save as disclosed herein, Mr. Yoji SATO has not been a director of any public company of which securities are listed on the securities markets in Hong Kong or overseas in the last three years.

* *For identification purpose only*

Biographies of
Directors and Senior Management

Executive Director

Executive Director

Mr. Haruhiko MORI

森治彦

Age 63

Mr. Haruhiko MORI ("**Mr. MORI**") was appointed as our executive Director in June 2015.

Mr. MORI graduated from Senshu University in March 1984 with a bachelor's degree in law.

Mr. Mori is the representative director (*daihyo torishimariyaku* 代表取締役) and president of Dynam, our wholly-owned subsidiary, since June 2015. He is primarily responsible for overseeing the operation of our pachinko halls and the overall management and development of our *DYNAM* (ダイナム) brand as a leading chain operator of pachinko halls in Japan. He is also responsible for matters related to legal compliance, risk management, internal control and audit of the Group and is the head of our internal control committee. Mr. MORI is also a member of our management strategy meeting.

He is also a representative director (*daihyo riji* 代表理事) of Shinrainomori.

Mr. MORI joined the Group in November 1998 working at the general affairs department of Dynam initially. In August 2000, Mr. MORI was appointed as the head of legal department in Dynam and became chiefly responsible for legal compliance, risk management and internal control of our pachinko halls operations. In June 2002, he was promoted as the executive officer (*shikko yakuin* 執行役員) of Dynam and the director of Dynam in June 2007.

He was appointed as executive officer of the Company in 2012.

Mr. MORI spent over eight years in various law firms in Tokyo, specialising in compliance with the Companies Act.

In the last three years, Mr. MORI has not been a director of any public company of which securities are listed on the securities market in Hong Kong or overseas.

Non-executive Director

Mr. Noriaki USHIJIMA

牛島憲明

Age 66

Mr. Noriaki USHIJIMA ("**Mr. USHIJIMA**") was appointed as our outside Director (*shagai torishimariyaku* 社外取締役) with effect from 20 September 2011, the date of incorporation of the Company. Mr. USHIJIMA has been consecutively re-appointed as the non-executive Director at each AGM held from 2012 to 2015.

Mr. USHIJIMA graduated from Chuo University in March 1973 with a bachelor's degree in economics.

Mr. USHIJIMA has over 30 years' experience serving at the Tokyo Stock Exchange. He held several senior positions at the Tokyo Stock Exchange between April 1973 and June 2004, and has substantial knowledge in the regulatory regime of securities products. Between June 2002 and May 2004, Mr. USHIJIMA held the positions of general manager in the listing inspection department and derivatives department of the Tokyo Stock Exchange. In June 2004, he held the positions of director and executive officer at Jasdaq Securities Exchange, Inc.. As a member of the senior management of Jasdaq Securities Exchange, Inc., Mr. USHIJIMA has substantial experience in compliance and securities matters in Japan. Mr. USHIJIMA left Jasdaq Securities Exchange, Inc. in November 2006 and founded the Noriaki USHIJIMA Office in December 2006, providing business consultancy services through its office in Tokyo.

Since March 2008, Mr. USHIJIMA was an outside director (*shagai torishimariyaku* 社外取締役) and a member of the audit committee of Dynam Holdings. He has resigned from these positions following the incorporation of the Company.

Mr. USHIJIMA has not been a director of any public company the of which securities are listed on the securities markets in Hong Kong or overseas in the last three years.

Biographies of Directors and Senior Management

Independent non-executive Directors

Our independent non-executive Directors were appointed as outside Directors (*shagai torishimariyaku* 社外取締役). "Outside director" has a different meaning under the Companies Act when compared with the meaning of "independent non-executive director" under the Listing Rules. The 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.

Independent non-executive Director

Independent non-executive Director

Mr. Ichiro TAKANO

高野一郎

Age 60

Mr. Ichiro TAKANO ("**Mr. TAKANO**") was appointed as our outside Director (*shagai torishimariyaku* 社外取締役) with effect from 20 September 2011, the date of incorporation of the Company. He is also the chairman of our Audit Committee. Mr. TAKANO has been consecutively re-appointed as the independent non-executive Director at each AGM held from 2012 to 2015.

Mr. TAKANO graduated from Waseda University in March 1980 with a bachelor's degree in law. He was admitted as an attorney-at-law in Japan in 1987.

Mr. TAKANO is currently a partner of TAKANO Law Offices, a legal practice based in Minato district (港区), Tokyo. He is also a statutory auditor (*kansayaku* 監査役) of Hikari Tsushin Inc., a supplier of mobile phones and office equipment, of which shares are listed on the Tokyo Stock Exchange (TSE: 9435). Prior to his current positions, Mr. TAKANO had substantial experience in handling compliance matters under the Companies Act at a number of law firms in Tokyo, Japan between 1987 and 2005. He has obtained over 29 years' experience practicing as an attorney-at-law (*bengoshi* 弁護士) in Japan.

Mr. TAKANO was appointed as an outside statutory auditor (*shagai kansayaku* 社外監査役) of Dynam Holdings in October 2006. In March 2007, Dynam Holdings underwent a restructuring in its corporate governance regime and Mr. TAKANO was re-designated as an outside director (*shagai torishimariyaku* 社外取締役) and a member of the audit committee of Dynam Holdings. Following the incorporation of the Company, Mr. TAKANO resigned from all positions he held within Dynam Holdings.

Mr. TAKANO was an outside director (*shagai torishimariyaku* 社外取締役) of Dynam Holdings between 29 March 2007 and 20 September 2011. Our Directors are of the view that this position does not affect Mr. TAKANO's independence under Rule 3.13(7) of the Listing Rules because (i) as confirmed by our Japan legal adviser Soga Law Office, Mr. TAKANO, as an outside director (*shagai torishimariyaku* 社外取締役), was not allowed to carry any executive function in Dynam Holdings under the Companies Act; and (ii) Mr. TAKANO is independent of the Company, Directors, Chief Executive Officer, substantial Shareholders, Controlling Shareholders, each of our subsidiaries and each of their respective associates.

Mr. TAKANO has not been a director of any public company of which securities are listed on the securities markets in Hong Kong or overseas in the last three years.

Independent non-executive Director

Mr. Mitsutoshi KATO

加藤光利

Age 58

Mr. Mitsutoshi KATO ("**Mr. KATO**") was appointed as our independent non-executive Director with effect from 29 February 2012. Mr. KATO has been consecutively re-appointed as the independent non-executive Director at each AGM held from 2012 to 2015. He was also appointed as the chairman of our Remuneration Committee and Nomination Committee in June 2015.

Mr. KATO graduated from the State University of New York at Stony Brook with a bachelor's degree in arts, major in political science in May 1980.

Mr. KATO has over 20 years' experience in the banking and financial industry in Japan, Hong Kong, the PRC and Europe. He began his career at The Bank of Tokyo Ltd. (currently known as The Bank of Tokyo Mitsubishi UFJ Ltd.) in April 1982. In April 1988, he was seconded to Kincheng-Tokyo Finance Company Limited as manager for a period of two years until February 1990, when he joined Banque Indosuez (currently known as Credit Agricole Corporate and Investment Bank). Mr. KATO had since then held various positions at the Tokyo branch of Credit Agricole Indosuez, including the assistant branch manager of the corporate finance department and the head of the project & structured finance department. He left Credit Agricole CIB in August 2005, and is currently representative director and chief financial officer of Eco-Material Corporation, a Sino-Japanese clean technology venture in Japan.

Mr. KATO has not been a director of any public company of which securities are listed on the securities market in Hong Kong or overseas in the last three years.

Independent non-executive Director

Mr. Thomas Chun Kee YIP

葉振基

Age 55

Mr. Thomas Chun Kee YIP ("**Mr. YIP**") was appointed as our independent non-executive Director on 29 February 2012. He is also a member of our Audit Committee. Mr. YIP has been consecutively re-appointed as the independent non-executive Director at each AGM held from 2012 to 2015.

Mr. YIP graduated from the University of Sydney with a bachelor's degree in economics in April 1984.

Mr. YIP has around 30 years' experience in accounting, audit and financial reporting. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and an Associate of the Institute of Chartered Accountants in Australia. He is also a member of the Society of Chinese Accountants and Auditors, an Associate of The Taxation Institute of Hong Kong and a Certified Tax Adviser in Hong Kong.

Mr. YIP began his professional career in accounting at Touche Ross & Co. Hong Kong, the predecessor of Deloitte Touche Tohmatsu in May 1984. In January 1986, he moved to Sydney and served as a senior accountant at Price Waterhouse Sydney. Mr. YIP returned to Hong Kong in December 1988 and joined the Hong Kong office of Price Waterhouse, where he spent around five years before being promoted to senior manager, audit in July 1994. Mr. YIP left the firm in December 2001 and continued his career as a principal and subsequently as a director at CCIF CPA Limited. In March 2008, he held his current position as a practising director of AIP Partners C.P.A. Limited, where he specializes in providing auditing and tax advice to Japanese clients.

With his current and previous positions in AIP Partners C.P.A. Limited and other professional accounting firms, our Directors are of the view that Mr. YIP possesses the appropriate professional qualifications and accounting and financial management expertise in compliance with Rule 3.10(2) of the Listing Rules. Our Directors confirm that, during the year immediately prior to Mr. YIP's appointment as an independent non-executive Director, AIP Partners C.P.A. Limited has not been providing professional services to our Company, members of our Group, our Controlling Shareholders, or any of their respective associates.

In the last three years, Mr. YIP has not been a director of a public company of which securities are listed on the securities market in Hong Kong or overseas.

Independent non-executive Director

Mr. Eisho KUNITOMO

國友英昭

Age 65

Mr. Eisho KUNITOMO ("**Mr. KUNITOMO**") was appointed as our independent non-executive Director and a member of our Audit Committee on 24 June 2015.

Mr. KUNITOMO graduated from Osaka University in March 1974 with a bachelor's degree in law. He graduated from New York University School of Law in June 1979 with a degree of Master of Comparative Jurisprudence.

Mr. KUNITOMO joined Akebono Brake Industry Co., Ltd. ("**Akebono**"), one of the largest manufacturers of various brakes and other related products, of which shares has been listed on the first section of the Tokyo Stock Exchange (TSE:7238) since July 2003. He was promoted as the deputy executive officer in charge of the management planning department and general manager of the legal and share group of Akebono. Thereafter, he had directed and supervised the entire legal and intellectual property affairs of Akebono until the end of 2007 and since January 2008 he had been responsible for governance and risk management and other related fields at management planning office. Mr. KUNITOMO was promoted as senior expert (officer-class position) of Akebono in January 2004. As he reached the age of 60, the retirement age, in August 2010, he has been working since then as a fixed-term employee with Akebono.

Before joining Akebono, Mr. KUNITOMO had been in the legal department of Marubeni Corporation, of which shares are listed on the first section of the Tokyo Stock Exchange (TSE:8002), one of the largest general trading firms in Japan, specializing in corporate law for as long as 29 years since April 1974. In particular, taking advantage of his experiences of having studied in the United States for two years since 1977 as a company-sponsored foreign student, he had since then been active mainly in the field of cross-border legal affairs. In 1992, he was seconded to Marubeni America Corporation, and he had been in the position of General Manager for 4 years since April 1994. He was registered as Attorney-at-Law in the state of New York in 1996.

Mr. KUNITOMO has not been a director of a public company the securities of which are listed on the securities market in Hong Kong or overseas in the last three years.

Biographies of
Directors and Senior Management

Independent non-executive Director

Independent non-executive Director

Mr. Kei MURAYAMA

村山啓

Age 61

Mr. Kei MURAYAMA ("**Mr. MURAYAMA**") was appointed as our independent non-executive Director and a member of our Remuneration Committee and Nomination Committee on 24 June 2015.

Mr. MURAYAMA graduated from Senshu University in March 1974 with a bachelor's degree in law.

Mr. MURAYAMA joined Lawson, Inc. ("**Lawson**") (then known as Lawson Japan, Inc.), of which shares have been listed on the first section of the Tokyo Stock Exchange (TSE:2651) since March 1986. He had been since then mostly responsible for human resources and development matters. In March 2007, he was promoted as the head of the department of human resources and development, and then executive officer (*shikko yakuin* 執行役員) in March 2009. For two years from February 2013, he was responsible for general affairs and legal affairs. Since his term of office as an executive officer expired in March 2015, he has been a full-time corporate advisor in charge of human resources department of Lawson.

Before joining Lawson in April 1978, he started employment with SWANY Corporation headquartered in Kagawa prefecture which engages in the manufacturing and sales of clothing and accessories such as gloves and served in the accounting and sales departments in a subsidiary-manufacturing company in Korea and sales offices in Tokyo and Osaka.

Mr. MURAYAMA has not been a director of a public company of which securities are listed on the securities market in Hong Kong or overseas in the last three years.

Senior Management

Executive Officers

The Company is required to appoint a minimum of one Executive Officer, comprising one Chief Executive Officer (*daihyo shikkoyaku* 代表執行役). Under the Companies Act, our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役) is the legal representative of the Company with the authority to sign and effect agreements on behalf of the Company.

Our Executive Officers are key members of our senior management. Unlike our Directors, who are chiefly responsible for formulating business strategies and supervising our business strategies, our Executive Officers directly manage the day-to-day operation of the Group and implement the business strategies devised by the Directors. Pursuant to the Articles of Incorporation, our Executive Officers, including our Chief Executive Officer (*daihyo shikkoyaku* 代表執行役), are elected and appointed by way of Board resolutions and are under the direct supervision of the Directors.

In addition to our Chief Executive Officer, the Company has five Executive Officers: one Executive Officer concurrently appointed as Director; and the other four Executive Officers who are not Directors. Executive Officers who are not Directors are not engaged in decision-making on material matters that are required to be resolved at a meeting of the Board under the Companies Act or our Articles of Incorporation.

Biographies of
Directors and Senior Management

Below are the biographies of our Executive Officers:

Senior Management

Chairman of the Board and Chief Executive Officer

Mr. Kohei SATO

佐藤公平

Age 61

The biography of Mr. Kohei SATO is provided on page 16 of this Annual Report.

Executive Director

Mr. Haruhiko MORI

森治彦

Age 63

The biography of Mr. Haruhiko MORI is provided on page 18 of this Annual Report.

Executive Officer

Mr. Makoto SAKAMOTO

坂本誠

Age 59

Mr. Makoto SAKAMOTO ("**Mr. SAKAMOTO**") was appointed as Executive Officer with effect from 1 September 2013.

Mr. SAKAMOTO has been a director of Dynam, our wholly-owned subsidiary, since June 2011. He is in charge of our human resources management and is also a member of our management strategy meeting.

Mr. SAKAMOTO graduated from Waseda University in March 1980 with a bachelor's degree in social sciences.

Mr. SAKAMOTO began his career in Daiei Inc., a large-scale supermarket-chain in Japan of which shares had been listed on the Tokyo Stock Exchange (TSE: 8263), upon graduation. Between September 2000 and October 2002, he worked for Big Boy Japan Co., Ltd. Thereafter, he joined Central Services System Co., Ltd in November 2002 until he left to work for Japan Sportsvision Co., Ltd from May 2003 to November 2003.

Mr. SAKAMOTO joined the Group in February 2004. He was promoted as the manager of the personnel department of Dynam in September 2005, a position he currently holds along with his other duties in the Group. In September 2006, he was promoted as an executive officer (*shikko yakuin* 執行役員) of Dynam. With his current and previous positions held in the Group and other institutions, Mr. SAKAMOTO is experienced in the field of human resources management.

In the last three years, Mr. SAKAMOTO has not been a director of any public company of which securities are listed on the securities market in Hong Kong or overseas.

Biographies of
Directors and Senior Management

Senior Management

Executive Officer

Mr. Yoshiyuki MIZUTANI

水谷義之

Age 59

Mr. Yoshiyuki MIZUTANI ("**Mr. MIZUTANI**") was appointed as our Executive Officer with effect from 1 November 2012 and mainly in charge of finance and accounting.

Mr. MIZUTANI was also appointed as a managing director of Dynam on 18 June 2015.

Mr. MIZUTANI has 34 years' experience in the field of finance and accounting. Since he entered Daiei Inc., a large-scale supermarket-chain in Japan, he has been consistently engaged in accounting and financing affairs and developed his career as a general manager of accounting at Daiei Inc.. Subsequently, Mr. MIZUTANI joined Life Card Co., Ltd., a provider of consumer credit card services and a subsidiary of Aiful Corporation of which shares are listed on the Tokyo Stock Exchange (TSE: 8515), where he served as a director and general manager of finance.

In the last three years, Mr. MIZUTANI has not been a director of any public company of which securities are listed on the securities market in Hong Kong or overseas.

Executive Officer

Mr. Hisao KATSUTA

勝田久男

Age 64

Mr. Hisao KATSUTA ("**Mr. KATSUTA**") was appointed as our Executive Officer with effect from 1 February 2012.

Mr. KATSUTA graduated from the University of Tokyo with a bachelor's degree in arts in March 1974. He obtained a master's degree in business administration from Columbia University in May 1980.

Mr. KATSUTA has considerable knowledge and 28 years' experience in corporate management, securities and corporate finance. Upon his graduation in March 1974, he joined Oji Paper Co., Ltd. at its Tomakomai Paper Mill.

Mr. KATSUTA spent 26 years at the Daiwa Securities Group, beginning in Daiwa Securities Co., Ltd. in June 1985. He held several senior positions at various entities within the Daiwa Securities Group, including the resident director of the Silicon Valley office of the Daiwa Institute of Research and the managing director of Daiwa Institute of Research (Hong Kong) Ltd.. During this period, Mr. KATSUTA's extensive work experience led to his different appointments within the financial industry in Japan, Hong Kong and the United States. Prior to joining our Group, Mr. KATSUTA was the managing director of Daiwa Corporate Investment Asia Limited.

He is qualified as a class one sales representative recognised by Japan Securities Dealers Association* (日本証券業協會).

In the last three years, Mr. KATSUTA has not been a director of any public company of which securities are listed on the securities market in Hong Kong or overseas.

* *For identification purpose only*

Biographies of
Directors and Senior Management

Senior Management

Executive Officer

Mr. Shizuo OKAYASU

岡安静夫

Age 59

Mr. Shizuo OKAYASU ("**Mr. OKAYASU**") was appointed as our Executive Officer with effect from 1 January 2012. He is primarily responsible for the day-to-day management of our operations.

Mr. OKAYASU graduated from Rikkyo University in March 1980 with a bachelor's degree in sociology.

Mr. OKAYASU joined the Group in November 2004 as a manager of the general affairs department of Dynam. Since then, he has been substantially involved in the management and operations of Dynam and other operating subsidiaries of the Group and has detailed knowledge in our business. In September 2006, he was appointed as an executive officer (*shikko yakuin* 執行役員) of Dynam and concurrently served as a general manager of its general affairs department. Subsequently, Mr. OKAYASU was transferred internally to Dynam Holdings as a general manager of its corporate planning and strategy department, a position he resigned from on 20 September 2011, the date of incorporation of the Company. He served as a general manager of our corporate planning and strategy department prior to his current appointment as our Executive Officer.

Mr. OKAYASU spent 24 years at Sumitomo Mitsui Banking Corporation between April 1980 and October 2004. During that period, he served in various positions at a number of branches in Tokyo and also at the head office.

In the last three years, Mr. OKAYASU has not been a director of any public company the securities of which are listed on the securities market in Hong Kong or overseas.


ダイナム

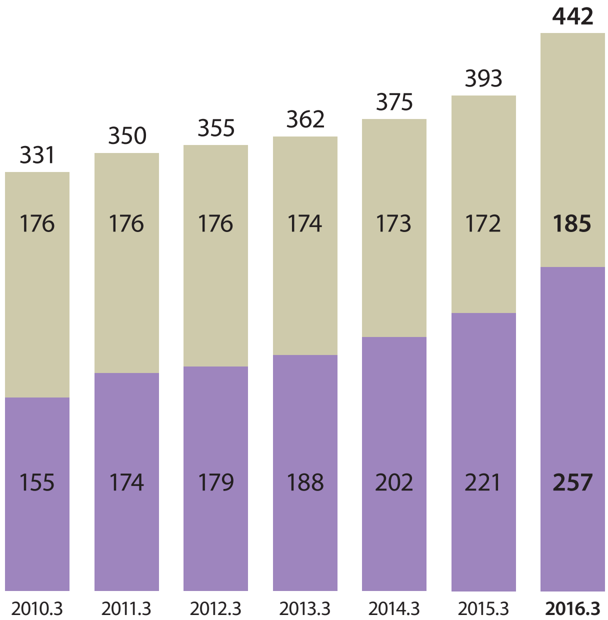

ダイナム
P
Parking

At a **Glance**

Industry Position

No.1

The DYNAM Group is the pachinko industry's leading company in terms of the number of pachinko halls.



Number of halls

442

As of 31 March 2016

Operation of two hall types focusing on low playing cost games

The Group operates two types of halls with different gaming costs and focuses on promoting low playing cost games.

High playing cost halls

Main hall brand: DYNAM

Most machines are high playing cost machines and smoking is allowed in the halls. This hall type includes 11 halls operated by Yume Corporation and 2 halls operated by Cabin Plaza.

Low playing cost halls

Main hall brand: DYNAM *Yuttari Kan* /
DYNAM *Shinrai no Mori*

Machines are mainly low playing cost machines and there is a wide selection of general prizes. This hall type includes *Yuttari Kan*, where smoking is allowed in the halls, *Shinrai no Mori*, where smoking is not allowed except in designated areas. It is comprised of 28 halls operated by Yume Corporation and 7 halls operated by Cabin Plaza Co., Ltd.

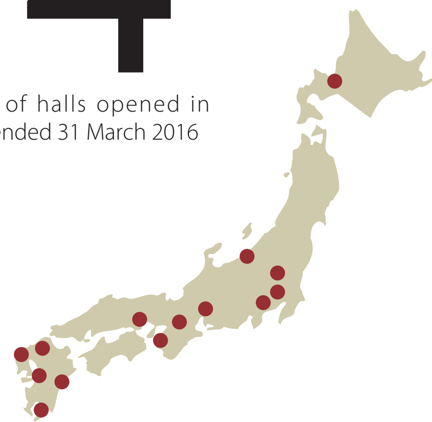
Acquisition of Yume Corporation (39 halls) into the Group

On 1 November 2015, we acquired Yume Corporation into the Group and their 39 halls joined our chain.

Number of new halls

14

Number of halls opened in the year ended 31 March 2016

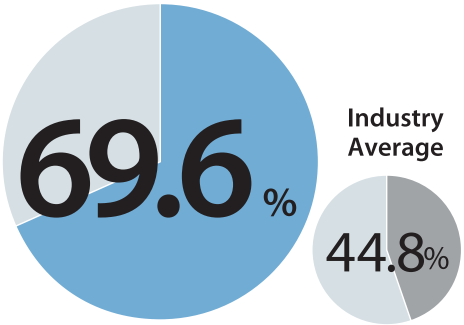


In the year ended 31 March 2016, we opened 5 high playing cost halls and 9 low playing cost halls. In addition, we closed 4 low playing cost halls in line with a change in our business areas. Furthermore, we acquired Yume Corporation into the Group and their 39 halls joined our chain. As a result, we had a total of 442 halls in operation as of 31 March 2016.

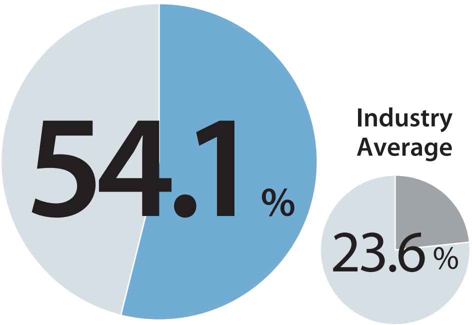
By hall type, we operate 185 high playing cost halls and 257 low playing cost halls, with low playing cost halls making up the majority at 58% of the total.

Proportion of Low Playing Cost Machines to Total Number of Machines

Pachinko



Pachislot



Customer needs have been gradually shifting towards enjoying gaming as a pastime for leisure rather than primarily as a means of winning prizes. Under this trend, the Group has been shifting its emphasis to low playing cost games.

As of 31 December 2015, the Group's low playing cost pachinko machines represented 69.6% of its total number of machines, compared with the national average of 44.8%. The proportion of halls featuring low playing cost machines is 100%, meaning that we have installed low playing cost machines at all of our halls.

Going forward, we will continue to drive the expansion of low playing cost games under our vision of reinventing pachinko as a genuine public entertainment that everyone can enjoy.

Number of Group Employees

17,780

According to research conducted by the Pachinko Trustee Board*, the pachinko industry plays a major role in job creation in Japan with an industry-wide workforce of 310,000 employees, which is approximately 1.5 times larger than the combined number of employees of Japan's top ten automotive companies**. As of 31 March 2016, the Group had a workforce of 17,780 employees. The Group's creation of these jobs and retention of the employees have helped to enhance its recognition from society.

Moreover, since 1989, when the Group began opening halls outside of the Tokyo metropolitan area, the Group has continuously recruited a certain number of people every year as management candidates, particularly university graduate. These employees have performed well in their respective positions, and have become a crucial business resource underpinning the Group's sustainable growth.

* An organization comprising third-party experts and specialists from outside the pachinko industry that aims to improve the social standing of pachinko hall management companies. The purpose of the organization is to establish a framework for managing pachinko halls that can engender public trust and provide reassurance to society.

**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.

Business **Overview**

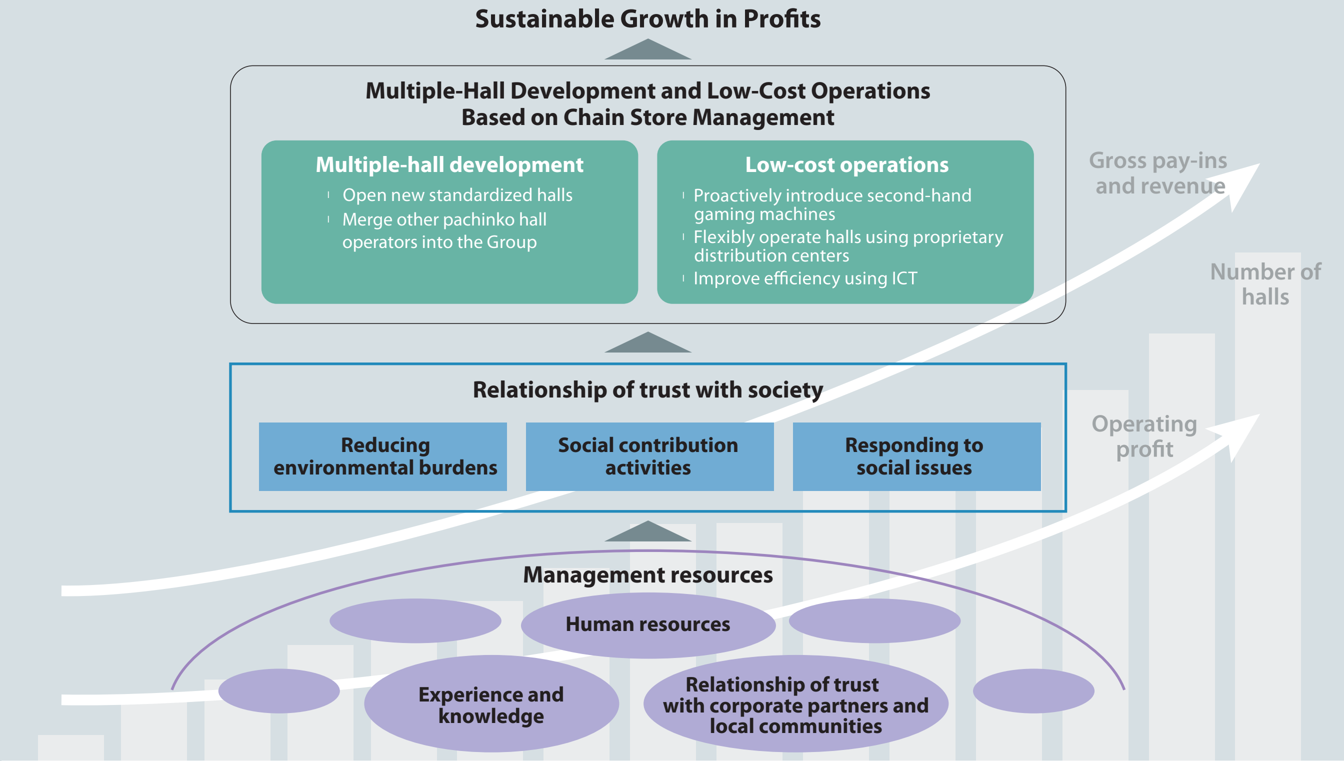
Chain Store Management and Growth Strategy of the Group

As the top leader in terms of the number of halls, the Group aims for sustainable growth over the long term by implementing chain store management, which is one of our five management policies. Two strategies are crucial to chain store management: multiple hall development and low-cost operations focusing on low playing cost games.

Low playing cost games are designed to entertain customers without imposing a significant cost burden on them. Costs for users are reduced by setting ¥1-per-ball and ¥5-per-token games (as opposed to conventional ¥4-per-ball and ¥20-per-token games). These low playing cost games are also becoming popular at other pachinko companies.

Nevertheless, while low playing cost games lead to increased number of customers and increased visit frequency as well as acquisition of a new customer base, there is also a risk of decreased profitability at pachinko halls. Therefore, in order to implement low playing cost games, innovation and expertise are needed to ensure low-cost operations in every aspect of the business, from new hall development to hall operation.

The Group is able to achieve low-cost operations by reaping the benefits of economies of scale in purchasing game machines and general prizes and other aspects of the business through its multiple-hall model. Accordingly, the Group is in a strong and advantageous position to develop the pachinko hall operation business.



Multiple-hall development

Multiple-hall development with the opening of new standardized halls and M&A

Based on its theory of chain store operations, the Group is opening new halls focusing on low playing cost halls, while standardizing the format of those halls. At the same time, the Group will through merger and acquisition increase the number of its halls.

Low-cost operations

Reaping economies of scale to realize low-cost operations

The Group has used second-hand gaming machines, established distribution centers and leveraged ICT to streamline hall operations and optimize major costs such as gaming machine and personnel expenses, which account for approximately 60% of hall operating expenses. By reaping the benefits of the economies of scale through multi-hall development, the Group aims to steadily accumulate profits.

Relationship of trust with society

Relationship of trust with society supporting sustainable development

The Group's halls have taken the lead in promoting various initiatives for strengthening the Group's relationship of trust with society.

Management resources

Management resources supporting sustainable development

The Group's human resources, experience and knowledge, and relationship of trust with corporate partners, land owners and local communities are management resources supporting sustainable development over the long term.

Multiple-hall development

The Group is implementing multiple-hall development based on its theory of chain store operations by opening new standardized halls and merging other pachinko hall operators into the Group to drive an increase in the number of halls.

Opening new standardized halls

The Group is controlling its initial opening costs by standardizing hall types and concentrating on opening halls in smaller populated regional areas. At the same time, the Group is reaping the benefits of the economies of scale of multiple-hall development to limit purchasing cost of gaming machines and general prizes.

Standardized hall (exterior)

Standardized hall (interior)

Targeting small business areas with 30,000 to 50,000 residents

The Group is promoting a suburban strategy for hall development by opening new halls in small regional business areas with 30,000 to 50,000 residents.

Standardizing installation number at 480 game machines

Having standardized the interior layout of the halls, the Group has set 480 gaming machines as the standard installation number for the pachinko and pachislot halls. This has enabled the Group to cut down initial investments, for example, by reducing the cost and period of construction.

Wood-frame halls on land leased for 20 years

As a rule of thumb, the Group constructs wood-frame halls on land leased for 20 years to avoid excessive investment in land purchases, so as to scrap the halls easily if market conditions change in the future. This also minimizes loss on retirement of assets because fixed-asset depreciation will be almost completed by the time the land lease expires in 20 years.

Acquiring other pachinko hall operators into the Group

Making the most of its advantage as a listed company, the Group implements schemes such as share exchanges to acquire other pachinko hall operators into the Group and expand its network of halls.

FOCUS

Share Exchange Agreement with Yume Corporation

The Company concluded a share exchange agreement on 24 September 2015 with Yume Corporation, pursuant to which the Company becomes parent company of Yume Corporation and thereby Yume Corporation becomes the wholly-owned subsidiary of the Company. On 1 November 2015, Yume Corporation officially joined the Group.

Yume Corporation is a leading company among Japan's approximately 3,500 pachinko hall operators. It had a nationwide network of 39 halls, operated under "Yumeya" brand as of 31 March 2016. As the two companies committed to chain store management, the Group and Yume Corporation (we) will maximize the management resources we have developed and work together to increase our number of halls and industry market share as the Group.

Yume Corporation

Date of incorporation	14 December 1970
Number of halls	39 (as of 31 March 2016)

Business **Overview**

Low-cost operations

The Group enjoys economies of scale to steadily accumulate revenues and profits. To this end, the Group has used second-hand gaming machines, established distribution centers, and utilized ICT systems to optimally control the operating cost of its halls.

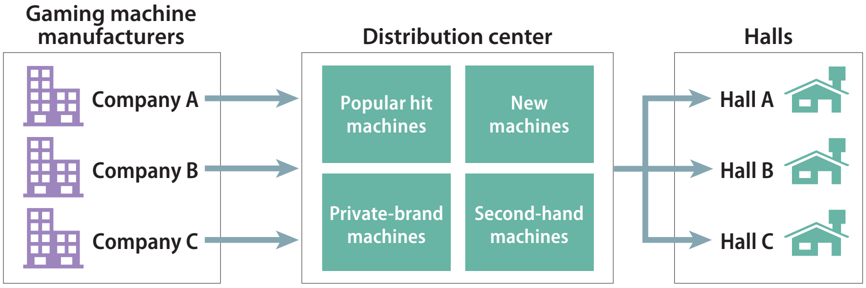
Using second-hand gaming machines and establishing distribution centers

The Group not only installs the newest and most popular hit models of gaming machines, but also an array of second-hand ones procured at low cost in its halls.

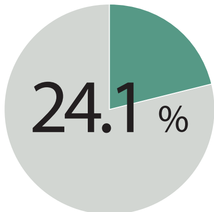
To control machine expenses (the procurement cost of gaming machines), the Group has established 16 distribution centers throughout Japan, each of which covers the logistical needs and facilitates the sharing of gaming machines among 20 to 30 halls. The gaming machines installed in the halls are centrally managed according to coverage area by these distribution centers. The centers help the Group to flexibly manage the lineup of gaming machines in the halls while reducing the transportation expenses.

Interior of a distribution center

Optimization of Hall Operating Costs by use of Private-Brand and Second-hand Gaming Machines



Procurement Ratio of Second-Hand Machines in total purchase volume



For the year ended 31 March 2016

Use of ICT systems

The Group has installed an individual ball counter system to manage the number of pachinko balls and pachislot tokens that come out of each gaming machine in the halls. This serves to improve staff's productivity and reduce personnel expenses in the halls by saving time for customers to keep track of their win and streamlining the work of hall staff.

Apart from that, ICT systems are applied strategically to streamline and reduce the cost of corporate functions including hall management, formulation of marketing strategies, personnel administration and accounting.

Deepening Relationships of Trust with Society

Building stronger relationships of trust with a broad cross-section of society, including members of the communities where our pachinko halls are located, is vital to ensuring the Group's sustainable growth over the long term. The Group's halls are taking the lead engaging in various initiatives for deepening their relationships of trust with society.

Environment

Power and energy conservation

The Group is implementing measures to conserve energy and reduce costs that include optimally controlling the thermostat settings of air conditioning equipment, introduction of LED lighting, and switching off unnecessary electric power.

LED lighting within a hall

Reduction and recycling of wastes

As a member of the Yugiki Recycle Kyokai*, the Group sees to the proper end-disposal of gaming machines by recycling the reusable parts and materials through industry association.

* an industry organization for the proper end-disposal of pachinko and pachislot machines

Society

Social contribution activities

Aside from eagerly participating in cleaning activities and other local community events throughout Japan, the Group has continued to donate general prizes to social welfare institutions.

Cleaning activities

Installation of AEDs

The Group has installed automated external defibrillators (AEDs) in its halls throughout Japan to provide customers with a safe environment in which they can be at peace enjoying their game.

An AED installed in a hall

Responding to social issues

Measures against gaming addiction

To counter addiction to pachinko and pachislot becoming a social issue, the Group has taken various measures including efforts to reduce the financial burden, to increase the enjoyment of the games and to launch campaign for warning the public against gaming addiction.

In addition, the Group supports non-profit making organizations that are established with the goal of resolving the issue of addiction and has a training program to educate its employees on gaming addiction.

Resolving the problem of children left unattended in parked vehicles

Accidents as a consequence of pachinko hall customers leaving their children unattended for long hours in parked vehicles have become a social problem in Japan. The Group is building a management framework to prevent them from happening, involving posters, banners and public announcements as a reminder to customers, in addition to patrolling the parking lots once every 30 minutes.

A parking lot patrol

The Group's Management Resources for Supporting Chain Store Management

The Group aims to achieve sustainable development over the long term by using our management resources that include personnel, experience and knowledge, and the relationship of trust with corporate partners, land owners and local communities.

Maintaining a sound financial condition

The Group has maintained a strong financial condition and sound management on the basis of having steadily accumulated profit over the course of many years. Furthermore, the Group has set forth a rigorous review standard that only new halls with a solid income outlook are approved.

As a result, the Group has a high credit capability among financial institutions. The Group as a whole had secured access to over ¥55 billion in loans as of 31 March 2016, mainly from major mega-banks in Japan and their commitment lines, and is capable of raising funds flexibly.

Know-how for opening halls both efficiently and effectively

The Group has established a specialized department being responsible for a series of development projects for new halls. This department selects numerous locations from local populated regions and narrows down the number of potential locations for opening new halls based on the Group's review standard. It also conducts on-site surveys to confirm the information which cannot be ascertained from maps to decide on the locations.

Building up these specialized knowledge and experiences enables the Group to open new halls both efficiently and effectively.

Building relationships with land owners and local residents

Building relationships of trust with owners of the land for opening new halls, as well as the local residents and other stakeholders, is vital to achieve the Group's aim of sustainable growth. When negotiating agreements on land for opening new halls with land owners, staff from the department for developing new halls patiently explain the rent, duration and other land lease stipulations in details, while providing an overview of the Group's business philosophy and content.

Furthermore, the Group periodically publishes a DYNAM Group Newsletter and other reading materials for land owners in an effort to broaden their understanding of the Group through the featured articles.

DYNAM Group Newsletter

Communication with Suppliers

The Group pursues management emphasizing profitability and seeks to control its procurement costs through communication with suppliers including the manufacturers of gaming machines and other equipment and facilities, as well as the suppliers of general prizes.

For example, we arrange forums periodically with the gaming manufacturers for exchanging information and feedback on market trends, the specifications and effects of their gaming machines, and the evaluation of their machines after they are introduced in our halls.

Original employee education programs

Nurturing talented and experienced employees with the required knowledge and skills is indispensable to the Group's execution of chain store management.

In light of this, since 1989, when the Group began opening halls outside the Tokyo metropolitan area, the Group has concentrated on nurturing a certain number of university graduates being employed every year as executive candidates. To enhance the experience and skills of the employees needed for chain store management, the Group also has original education programs for certain employee levels and purposes, and conducts assignments for educational purposes designed to provide on-the-job training (OJT) at the branch or head office. Furthermore, the Group has established two large-scale training centers in Japan for group training.

Main Education and Training Programs

- OJT training
- Group training
- Self-development training (e-learning, etc.)

A unique Jinsei Daigaku education program

The Group also conducts a Jinsei Daigaku (University of Life) program for all employees after they have been with the Company for certain number of years. In this program, employees of all ages from various departments and job assignments share meals and accommodations. Also, as they read books and participate in group discussions.

A scene from group training

Supporting female employees in the workplace

The Group is proactively promoting success of female employees in the workplace and has various systems in place providing support to its female employees.

For example, the Group provides internal job postings and self-application sheets to provide promotion opportunities to female employees who seek career advancements. Employees with parenting needs are supported by means such as shortening their working hours, providing childcare leave (eligible for both men and women), and curbing overtime and late-night working.

There are a mentor system which female employees can consult with the older colleagues about issues, which are difficult to discuss with their own supervisors, as well as a Dynam Nadeshiko Project which periodically nuture women taking senior and management positions to serve as role models for other female staff.

Furthermore, the Group has a plan which aims to raise the ratio of new university graduate up to around 25%.

A female employee thriving in one of the Group's halls

Financial **Review**

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

	For the year ended 31 March				
	2016		2015		
	(in millions, except for percentages)				
	¥	**HK$(1)**	¥	HK$(2)	changes
Gross pay-ins					
— High playing cost halls	**539,205**	**37,110**	554,341	35,741	–2.7%
— Low playing cost halls	**305,680**	**21,038**	271,732	17,520	+12.5%
Total gross pay-ins	**844,885**	**58,148**	826,072	53,261	+2.3%
Gross payouts					
— High playing cost halls	**455,107**	**31,322**	463,614	29,891	–1.8%
— Low playing cost halls	**233,866**	**16,095**	207,903	13,404	+12.5%
Total gross payouts	**688,974**	**47,417**	671,516	43,296	+2.6%
Revenue					
— High playing cost halls	**84,097**	**5,788**	90,727	5,850	–7.3%
— Low playing cost halls	**71,814**	**4,942**	63,829	4,115	+12.5%
Total revenue	**155,911**	**10,730**	154,556	9,965	+0.9%

(1) Translated into Hong Kong dollars at the rate of ¥14.53 to HK$1.00, the exchange rate prevailing on 31 March 2016 (i.e. the last business day in March 2016).

(2) Translated into Hong Kong dollars at the rate of ¥15.51 to HK$1.00, the exchange rate prevailing on 31 March 2015 (i.e. the last business day In March 2015).

GROSS PAY-INS

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

Our total gross pay-ins increased by ¥18,813 million (equivalent to approximately HK$1,295 million), or 2.3%, from 826,072 million (equivalent to approximately HK$53,261 million) for the year ended 31 March 2015 to ¥844,885 million (equivalent to approximately HK$58,148 million) for the year ended 31 March 2016.

During the year ended 31 March 2016, the utilization of pachinko machines has showed downward trend and the pachinko hall operators have continued to face challenging business circumstances in the entire industry.

Under this business environment, in an effort to achieve sustainable growth on long-term basis, we implemented measures to improve the utilization of pachinko machines in our halls including renovation of halls and change of machine mix reflecting our customers' needs. Also, the Company opened new halls under the hall launch plan, and we acquired Yume Corporation, an operator of 39 pachinko halls, into the Group in November 2015. As a result, the total number of halls as at 31 March 2016 was 442 halls, increased by 49 halls compared with the end of the previous fiscal year. These measures resulted in increased performance of total gross pay-ins year on year.

Our gross pay-ins by hall type are as follows.

Gross pay-ins for high playing cost halls decreased by ¥15,136 million (equivalent to approximately HK$1,042 million), or 2.7%, from ¥554,341 million (equivalent to approximately HK$35,741 million) for the year ended 31 March 2015 to ¥539,205 million (equivalent to approximately HK$37,110 million) for the year ended 31 March 2016. The decrease was primarily due to the decrease in utilization of our high playing cost machines.

Gross pay-ins for low playing cost halls increased by ¥33,948 million (equivalent to approximately HK$2,336 million), or 12.5%, from ¥271,732 million (equivalent to approximately HK$17,520 million) for the year ended 31 March 2015 to ¥305,680 million (equivalent to approximately HK$21,038 million) for the year ended 31 March 2016. The increase was due primarily to new hall openings and acquisition of Yume Corporation into the Group which resulted in an addition of 36 halls.

GROSS PAYOUTS

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

Our total gross payouts increased by ¥17,458million (equivalent to approximately HK$1,202 million), or 2.6%, from ¥671,516 million (equivalent to approximately HK$43,296 million) for the year ended 31 March 2015 to ¥688,974 million (equivalent to approximately HK$47,417 million) for the year ended 31 March 2016.

Gross payouts for high playing cost halls decreased by ¥8,507 million (equivalent to approximately HK$585 million), or 1.8%, from ¥463,614 million (equivalent to approximately HK$29,891 million) for the year ended 31 March 2015 to ¥455,107 million (equivalent to approximately HK$31,322 million) for the year ended 31 March 2016, which was in line with the decrease in gross pay-ins.

Gross payouts for low playing cost halls increased by ¥25,963 million (equivalent to approximately HK$1,787 million), or 12.5%, from ¥207,903 million (equivalent to approximately HK$13,404 million) for the year ended 31 March 2015 to ¥233,866 million (equivalent to approximately HK$16,095 million) for the year ended 31 March 2016. The increase was due primarily to the increase in gross pay-ins as a result of the addition of 36 halls as mentioned above.

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 total revenue was ¥154,556 million (equivalent to approximately HK$9,965 million) and ¥155,911 million (equivalent to approximately HK$10,730 million) for the years ended 31 March 2015 and 2016 respectively. During this fiscal year, our total revenue increased year on year in response to increased total gross pay-ins through our operational measures and increase in the number of halls.

Revenue for high playing cost halls decreased by ¥6,630 million (equivalent to approximately HK$456 million), or 7.3%, from ¥90,727 million (equivalent to approximately HK$5,850 million) for the year ended 31 March 2015 to ¥84,097 million (equivalent to approximately HK$5,788 million) for the year ended 31 March 2016. The decrease was primarily due to a decrease in gross pay-ins. The revenue margin for the year ended 31 March 2016 decreased by 0.8 points from 16.4% to 15.6% year-on-year, reflecting increased ratio of gross payouts to gross pay-ins. The increase in the ratio of gross payouts was a result of change in mix of machines implemented to encourage machine utilization in high playing cost halls.

Revenue for low playing cost halls increased by ¥7,985 million (equivalent to approximately HK$550 million), or 12.5%, from ¥63,829 million (equivalent to approximately HK$4,115 million) for the year ended 31 March 2015 to ¥71,814 million (equivalent to approximately HK$4,942 million) for the year ended 31 March 2016. The revenue margin was 23.5% for the year ended 31 March 2016 and maintained the same level as the previous fiscal year.

HALL OPERATING EXPENSES

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

	For the year ended 31 March											
	2016						2015					
	High playing cost halls		**Low playing cost halls**		**Total**		High playing cost halls		Low playing cost halls		Total	
	(in ¥millions, except for percentages)											
		%		**%**		**%**		%		%		%
Hall staff costs	**24,679**	**35.3%**	**22,693**	**33.2%**	**47,372**	**34.2%**	24,746	34.6%	20,344	32.2%	45,090	33.5%
Machine expenses	**19,565**	**27.9%**	**16,267**	**23.8%**	**35,832**	**25.9%**	20,186	28.2%	16,420	26.0%	36,607	27.2%
Depreciation charges	**4,531**	**6.5%**	**5,922**	**8.7%**	**10,453**	**7.6%**	4,457	6.2%	5,582	8.8%	10,040	7.5%
Rental	**4,790**	**6.8%**	**7,258**	**10.6%**	**12,048**	**8.7%**	4,692	6.6%	6,282	10.0%	10,974	8.1%
Advertising expenses	**2,566**	**3.7%**	**2,251**	**3.3%**	**4,817**	**3.5%**	2,558	3.6%	2,357	3.7%	4,915	3.6%
Utilities expenses	**2,735**	**3.9%**	**3,358**	**4.9%**	**6,093**	**4.4%**	2,684	3.8%	3,152	5.0%	5,836	4.3%
G-prize expenses	**1,128**	**1.6%**	**1,273**	**1.9%**	**2,401**	**1.7%**	1,516	2.1%	1,681	2.7%	3,197	2.4%
Cleaning and ancillary services	**1,770**	**2.5%**	**1,938**	**2.8%**	**3,707**	**2.7%**	1,703	2.4%	1,703	2.7%	3,406	2.5%
Repair and maintenance	**2,118**	**3.0%**	**1,558**	**2.3%**	**3,676**	**2.7%**	2,127	3.0%	1,257	2.0%	3,384	2.5%
Others	**6,120**	**8.7%**	**5,807**	**8.5%**	**11,927**	**8.6%**	6,887	9.6%	4,323	6.9%	11,210	8.3%
Total	**70,001**	**100.0%**	**68,325**	**100.0%**	**138,326**	**100.0%**	71,556	100.0%	63,103	100.0%	134,659	100.0%

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

	For the year ended 31 March											
	2016						2015					
	High playing cost halls		Low playing cost halls		Total		High playing cost halls		Low playing cost halls		Total	
	(in ¥millions, except for percentages)											
		%		%		%		%		%		%
Hall staff costs	133.4	35.3%	88.3	33.2%	107.2	34.2%	143.9	34.6%	92.1	32.2%	114.7	33.5%
Machine expenses	105.8	27.9%	63.3	23.8%	81.1	25.9%	117.4	28.2%	74.3	26.0%	93.1	27.2%
Depreciation charges	24.5	6.5%	23.0	8.7%	23.6	7.6%	25.9	6.2%	25.3	8.8%	25.5	7.5%
Rental	25.9	6.8%	28.2	10.6%	27.3	8.7%	27.3	6.6%	28.4	10.0%	27.9	8.1%
Advertising expenses	13.9	3.7%	8.8	3.3%	10.9	3.5%	14.9	3.6%	10.7	3.7%	12.5	3.6%
Utilities expenses	14.8	3.9%	13.1	4.9%	13.8	4.4%	15.6	3.8%	14.3	5.0%	14.8	4.3%
G-prize expenses	6.1	1.6%	5.0	1.9%	5.4	1.7%	8.8	2.1%	7.6	2.7%	8.1	2.4%
Cleaning and ancillary services	9.6	2.5%	7.5	2.8%	8.4	2.7%	9.9	2.4%	7.7	2.7%	8.7	2.5%
Repair and maintenance	11.4	3.0%	6.1	2.3%	8.3	2.7%	12.4	3.0%	5.7	2.0%	8.6	2.5%
Others	33.1	8.7%	22.6	8.5%	27.0	8.6%	40.0	9.6%	19.6	6.9%	28.5	8.3%
Total	378.4	100.0%	265.9	100.0%	313.0	100.0%	416.0	100.0%	285.5	100.0%	342.6	100.0%

Hall operating expenses increased by ¥3,667 million (equivalent to approximately HK$252 million), or 2.7%, from ¥134,659 million (equivalent to approximately HK$8,682 million) for the year ended 31 March 2015 to ¥138,326 million (equivalent to approximately HK$9,520 million) for the year ended 31 March 2016.

The increase of the total amount of the entire hall operating expenses was primarily attributable to the increase in hall staff costs and rental expenses in low playing cost halls reflecting substantial increase in the number of halls including new hall openings and acquisition of Yume Corporation into the Group.

Hall operating expenses for high playing cost halls decreased by ¥1,555 million (equivalent to approximately HK$107 million), or 2.2%, from ¥71,556 million (equivalent to approximately HK$4,614 million) for the year ended 31 March 2015 to ¥70,001 million (equivalent to approximately HK$4,818 million) for the year ended 31 March 2016. The average hall operating expenses per hall also decreased by 9% due primarily to the decrease in average pachinko and pachislot machine expenses and hall staff costs per hall by 9.9% and 7.3% respectively reflecting reduced procurement of pachinko and pachislot machines and increase in the number of halls in the second half of this fiscal year.

Hall operating expenses for low playing cost halls increased by ¥5,222 million (equivalent to approximately HK$359 million), or 8.3%, from ¥63,103 million (equivalent to approximately HK$4,069 million) for the year ended 31 March 2015 to ¥68,325 million (equivalent to approximately HK$4,702 million) for the year ended 31 March 2016, due primarily to the increase in hall staff costs and rental expenses as a result of the addition of 36 halls including new hall openings and acquisition of Yume Corporation into the Group. The average hall operating expenses per hall was ¥266 million (equivalent to approximately HK$18 million) for the year ended 31 March 2016, recording 6.9% decrease compared with the previous fiscal year due to substantial increase in the number of halls and reduced procurement of pachinko and pachislot machines in the second half of this fiscal year.

Financial **Review**

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased by ¥342 million (equivalent to approximately HK$24 million), or 6.3%, from ¥5,456 million (equivalent to approximately HK$352 million) for the year ended 31 March 2015 to ¥5,798 million (equivalent to approximately HK$399 million) for the year ended 31 March 2016. The increase was primarily due to the increased number of employees as a result of the acquisition of Yume Corporation into the Group.

OTHER INCOME

Other income for the years ended 31 March 2015 and 2016 were ¥6,850 million (equivalent to approximately HK$442 million) and ¥8,184 million (equivalent to approximately HK$563 million) respectively. The increase was primarily attributable to the sales proceeds from property held for sale and increased commission income from vending machines and in-store sales, and increased income from catering services.

OTHER OPERATING EXPENSES

Other operating expenses decreased by ¥142 million (equivalent to approximately HK$10 million), or 7.3%, from ¥1,947 million (equivalent to approximately HK$126 million) for the year ended 31 March 2015 to ¥1,805 million (equivalent to approximately HK$124 million) for the year ended 31 March 2016. The decrease was primarily attributable to the decreased impairment loss on property, plant and equipment, partially offset by the sales costs of property held for sale.

FINANCE INCOME

Finance income decreased by ¥1,840 million (equivalent to approximately HK$127 million), or 85.5%, from ¥2,151 million (equivalent to approximately HK$139 million) for the year ended 31 March 2015 to ¥311 million (equivalent to approximately HK$21 million) for the year ended 31 March 2016. The decrease was primarily attributable to the net exchange gain recognized during the year ended 31 March 2015.

FINANCE EXPENSES

Finance expenses decreased by ¥903 million (equivalent to approximately HK$62 million), or 45.7%, from ¥1,977 million (equivalent to approximately HK$127 million) for the year ended 31 March 2015 to ¥1,074 million (equivalent to approximately HK$74 million) for the year ended 31 March 2016. The decrease was primarily attributable to the loss on change in fair value of listed shares recognized for the previous fiscal year end.

CASH FLOW AND LIQUIDITY

Cash flows

We meet our working capital and other capital requirements principally by the following: (i) cash generated from our operations and (ii) bank borrowings.

The table below sets out the cash flow data extracted from our consolidated statement of cash flows:

	For the year ended 31 March			
	2016		2015	
	(in millions)			
	¥	HK$[1]	¥	HK$[2]
Net cash generated from operating activities	**24,073**	**1,657**	13,416	865
Net cash used in investing activities	**(10,653)**	**(733)**	(17,013)	(1,097)
Net cash used in financing activities	**(15,212)**	**(1,047)**	(2,898)	(187)
Effects of exchange rate changes on cash and cash equivalents	**687**	**47**	898	58
Net decrease in cash and cash equivalents	**(1,105)**	**(76)**	(5,597)	(361)
Cash and cash equivalents at beginning of year	**29,239**	**2,012**	34,836	2,246
Cash and cash equivalents at end of year	**28,134**	**1,936**	29,239	1,885

Financial **Review**

Net cash generated from operating activities

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

	For the year ended 31 March			
	2016		2015	
	(in millions)			
	¥	**HK$[1]**	¥	HK$[2]
Operating profit before working capital changes	**30,530**	**2,101**	31,333	2,156
Change in working capital — (used in)	**(2,079)**	**(143)**	(1,576)	(108)
Cash generated from operations	**28,451**	**1,958**	29,757	1,919
Income taxes paid	**(3,489)**	**(240)**	(15,316)	(987)
Finance expenses paid	**(889)**	**(61)**	(1,025)	(66)
Net cash generated from operating activities	**24,073**	**1,657**	13,416	865

(1) Translated into Hong Kong dollars at the rate of ¥14.53 to HK$1.00, the exchange rate prevailing on 31 March 2016 (i.e. the last business day in March 2016).

(2) Translated into Hong Kong dollars at the rate of ¥15.51 to HK$1.00, the exchange rate prevailing on 31 March 2015 (i.e. the last business day in March 2015).

Our net cash generated from operating activities was ¥24,073 million (equivalent to approximately HK$1,657 million) for the year ended 31 March 2016 as compared to ¥13,416 million (equivalent to approximately HK$865 million) for the year ended 31 March 2015. The increase in our net cash generated from operating activities was mainly due to the decreased income taxes and finance expenses paid, even though operating profit before working capital changes decreases.

Net cash used in investing activities

Our cash used in investing activities primarily consists 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 ¥17,013 million (equivalent to approximately HK$1,097 million) and ¥10,653 million (equivalent to approximately HK$733 million) for the years ended 31 March 2015 and 2016 respectively. The cash outflow for the year ended 31 March 2016 was primarily due to the purchase of property, plant and equipment amounted to ¥12,613 million (equivalent to approximately HK$868 million).

Net cash used in financing activities

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

For the year ended 31 March 2016, net cash used in financing activities was ¥ 15,212 million (equivalent to approximately HK$ 1,047 million) compared to net cash used in financing activities of ¥ 2,898 million (equivalent to approximately HK$ 187 million) for the year ended 31 March 2015.

The cash outflow for the year ended 31 March 2016 was primarily due to the repayment of bank loans in the amount of ¥12,914 million (equivalent to approximately HK$889 million), dividend payment in the amount of ¥10,665 million (equivalent to approximately HK$734 million), and acquisition of treasury shares in the amount of ¥3,161 million (equivalent to approximately HK$218 million).

Liquidity

Net current assets and working capital sufficiency

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

	31 March 2016		31 March 2015	
		(in millions)		
	¥	**HK$[(1)]**	¥	HK$[(2)]
Current assets				
Inventories	**3,580**	**246**	4,493	290
Trade receivables	**459**	**32**	486	31
Financial assets at fair value through profit or loss	**–**	**–**	2,925	189
Prizes in operation of pachinko halls	**4,916**	**338**	4,292	277
Other current assets	**6,151**	**423**	7,288	470
Cash and cash equivalents	**28,134**	**1,936**	29,239	1,885
	43,240	**2,976**	48,723	3,141
Current liabilities				
Trade and other payables	**17,786**	**1,224**	20,468	1,320
Borrowings	**2,369**	**163**	3,160	204
Finance lease payables	**86**	**6**	254	16
Provisions	**1,731**	**119**	1,610	104
Income taxes payables	**2,497**	**172**	719	46
Other current liabilities	**6,369**	**438**	5,169	333
	30,838	**2,122**	31,380	2,023
Net current assets	**12,402**	**854**	17,343	1,118

(1) Translated into Hong Kong dollars at the rate of ¥14.53 to HK$1.00, the exchange rate prevailing on 31 March 2016 (i.e. the last business day in March 2016).

(2) Translated into Hong Kong dollars at the rate of ¥15.51 to HK$1.00, the exchange rate prevailing on 31 March 2015 (i.e. the last business day in March 2015).

Financial **Review**

As at 31 March 2015 and 2016, our net current assets totalled ¥17,343 million (equivalent to approximately HK$1,118 million) and ¥12,402 million (equivalent to approximately HK$854 million) respectively, and our ratio of current assets to current liabilities was 1.6 and 1.4 respectively.

Gearing Ratio

The gearing ratio is an indicator of our capital structure, which is calculated by total borrowings divided by total assets. Total borrowings is comprised of long and short-term bank borrowings. The gearing ratio increased from 6.8% as at 31 March 2015 to 11% as at 31 March 2016, primarily due to the increase in total borrowings.

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 year ended 31 March 2015 and 2016 were ¥20,828 million (equivalent to approximately HK$1,343 million) and ¥11,873 million (equivalent to approximately HK$817 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.

The details of capital expenditure are provided in note 23 to the consolidated financial statements on page 123 of this Annual Report.

Inventories

Our total inventories decreased from ¥4,493 million (equivalent to approximately HK$290 million) as at 31 March 2015 to ¥3,580 million (equivalent to approximately HK$246 million) as at 31 March 2016. The decrease was primarily attributable to decrease in supplies related to our pachinko hall operation of ¥688 million (equivalent to approximately HK$47 million), and properties held for sale and under development for sale of ¥67 million (equivalent to approximately HK$5 million).

The details to inventories are provided in note 30 to the consolidated financial statements on page 133 of this Annual Report.

Prizes in operation of pachinko halls

Our total prizes in operation of pachinko halls increased from ¥4,292 million (equivalent to approximately HK$277 million) as at 31 March 2015 to ¥4,916 million (equivalent to approximately HK$338 million) as at 31 March 2016. The increase was primarily attributable to increase in general prize of ¥142 million (equivalent to approximately HK$10 million) and increase in G-prize of ¥482 million (equivalent to approximately HK$33 million).

The details of prizes in operation of pachinko halls are provided in note 31 to the consolidated financial statements on page 133 of this Annual Report.

PLEDGE OF ASSETS

As at 31 March 2016, certain property, plant and equipment was pledged as securities for the bank borrowings, which amounted to ¥6,021 million (equivalent to approximately HK$414 million).

For the relevant information, please refer to note 35 to the consolidated financial statements on page 136 of this Annual Report.

CONTINGENT LIABILITIES

As at 31 March 2016, we had no material contingent liabilities.

CAPITAL COMMITMENTS

The details of capital commitments are provided in note 49 to the consolidated financial statements on page 150 of this Annual Report.

ACQUISITION AND DISPOSAL

The Company acquired the entire issued share capital of Yume Corporation on 1 November 2015 by way of share exchange. For the relevant information, please refer to note 46 to the consolidated financial statements on page 148 of this Annual Report.

SIGNIFICANT INVESTMENTS

Save for the new halls opened, we did not have any significant investments during the year ended 31 March 2016.

EMPLOYEES

As at 31 March 2016, we had approximately 17,780 employees (31 March 2015: 16,394). We will regularly review remuneration and benefits of our 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 employee remuneration incurred for the year ended 31 March 2016 was ¥50,591 million (equivalent to approximately HK$3,482 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 from 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 bank borrowings as capital resources to finance a portion of our operations.

Financial **Review**

Indebtedness

Our short-term and long-term borrowings outstanding as at 31 March 2016 were ¥2,369 million (equivalent to approximately HK$163 million) and ¥18,394 million (equivalent to approximately HK$1,266 million) respectively. These bank borrowings are secured liabilities.

The details of borrowings are provided in note 35 to the consolidated financial statements on page 136 of this Annual Report.

Loan facilities

On 30 September 2015, the Company entered into a loan agreement with a syndicated of lenders, pursuant to which a revolving loan facility in an amount of up to ¥10,000 million was granted to the Company. The commitment of the lenders to provide loans under the revolving loan facility is available for a three year period from the execution date of the original loan agreement. Borrowings under the revolving loan facility bear interest at the rate of 0.4% 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 30 December 2014, Dynam has changed the commitment line contract signed on 31 March 2014 into the one responsive to earthquake. The previous commitment line contract has remained a slight concern in fund-raising due to immunity for financial institutions at the time of large scale disaster including earthquake. Dynam has signed the new commitment line contract responsive to earthquake to resolve the above concern, which has enabled Dynam to secure the fund promptly even earthquake occurs.

This commitment line provides a revolving loan facility in an amount of up to ¥15,000 million. The commitment of the lenders to provide loans under the revolving loan facility is available for a three year period from the execution date of the original loan agreement. Borrowings under the revolving loan facility bear interest at the rate of 0.4% 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 20 March 2015, Dynam also entered into a new loan agreement with a syndicated of lenders, pursuant to which a revolving loan facility in an amount of up to ¥30,000 million. The loan facility is available for a three year period from the execution date of the original loan agreement. Borrowings under the loan facility bear interest at the rate of 0.5% 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.

Further to the above loan facilities, on 30 September 2015, Dynam entered into an installment facility contract with a syndicated of leasing companies in an amount of up to ¥15,000 million for the purpose of procurement of pachinko and pachislot machines. The loan facility is available for one year period from the execution date of the original agreement.

At the close of business on 31 March 2016, we had a total amount of approximately ¥74,000 million (equivalent to approximately HK$5,093 million) of banking facilities and an installment facility including overdraft facilities available to us, out of which approximately ¥57,497 million (equivalent to approximately HK$3,957 million) was unutilized.

FINANCIAL RISK

The Group's activities expose it to a variety of market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Market Risks

Foreign currency risk

We have certain exposure to foreign currency risk as most of our 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 the Group's foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Price risk

The Group's financial assets at fair value through other comprehensive income are measured at fair value at the end of each reporting period, exposing us to equity security price risk. We periodically review the fair values of these investments as well as the financial condition of investees.

Interest rate risk

Our exposure to interest rate risk arises from bank deposits and borrowings. These deposits and borrowings bear interest at variable rates. We have used interest rate swaps in order to mitigate our exposure associated with fluctuations in interest rates.

Credit Risk

The carrying amount of the bank and cash balance, pledged bank deposits, trade and other receivables and derivative financial instruments included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related companies are closely monitored by the directors.

In order to minimise credit risk, management have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

Liquidity Risk

The Group's policy is to regularly monitor its current and expected liquidity requirements, its compliance with lending covenants and its relationship with bankers to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet Its liquidity requirements in the short and longer term.

The details of our financial risk management are provided in note 9 to the consolidated financial statements on pages 100 to 104 of this Annual Report.

Report of the **Directors**

The Board of Directors is pleased to present this Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 March 2016 (the "Financial Statements").

PRINCIPAL ACTIVITIES

The Company is a pure holding company and operates pachinko halls business.

In our pachinko halls business, in order to achieve the vision of "remaking pachinko as a truly popular entertainment that can be readily and comfortably enjoyed by all", the Group has been proactively expanding its halls specialized at low playing cost machines that allow users to enjoy pachinko at low costs. During the fiscal year ended 31 March 2016 under review, the Group opened 9 new low playing cost halls and 5 new high playing cost halls and converted 3 existing high playing cost halls to low playing cost halls. In addition, the Group closed 4 unprofitable halls. Furthermore, we acquired Yume Corporation into the Group and their 39 halls joined our chain. Consequently, there were 257 low playing cost halls, making up over half of the Group's 442 halls as at 31 March 2016.

BUSINESS REVIEW AND PROSPECT

A review of the business of the Group during the year, a discussion on the Group's growth strategy, and our corporate vision are provided in the "Top Message" on pages 12 to 15, "At a Glance" on pages 32 to 33 and "Business Overview" on pages 34 to 39 of this Annual Report. An analysis of the Group's performance during the year using key financial performance indicators including performance by hall types and breakdown of major account segments, and an explanation for the increase or decrease of each of the major account segments are provided in the "Financial Review" on pages 40 to 51 of this Annual Report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 March 2016, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

ENVIRONMENTAL PROTECTION

The company has long considered environmental protection as one of its key priorities. Our pachinko hall operation itself does not cause any material damage to the environment, however, as a member of society, the Group is constantly seeking to improve our environmental protection measures. For example, we reduce our use of electric power by installing LED lighting at halls. The Group also sees to the proper end-disposal of gaming machines by recycling the usable parts and materials through an industry organization for the proper end-disposal of pachinko and pachislot machines. The relevant information is described in Business Overview on page 37 of this Annual Report.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The sustainable development of the Group depends on the supports and efforts of all parties concerned including our customers, suppliers and contractors, particularly the efforts and contribution of all our staff. The details regarding our relationships with employees, customers and suppliers are provided in the "Business Overview" on pages 36 to 38.

RISK AND UNCERTAINTIES

The financial conditions and operating results of the Group may be subject to various potential risk and uncertainties, the details of which are provided in the "Financial Review" on pages 49 to 50 of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2016 are set out in the financial statements from page 70 to page 154 of this Annual Report.

DECLARATION OF FINAL DIVIDEND

The Board proposed to declare a final dividend of ¥6 per ordinary Share for the year ended 31 March 2016 on 26 May 2016, and the final dividend will be payable on 24 June 2016 to the Shareholders whose names appear on the Company's share register at close of business on 2 June 2016. Based on the assumption that 765,985,896 Shares shall be in issue as at 2 June 2016, it is expected that the final dividend payable will amount to approximately ¥4,596 million (equivalent to approximately HK$316 million). As at the Latest Practicable Date, no Shareholder has waived or agreed to waive any dividends.

The exchange rate for the conversion of Japanese yen to Hong Kong dollar for the dividend distributed to Shareholders in the currency other than Japanese yen will be based on the average currency exchange rates prevailing five trading days immediately before 26 May 2016 (being 19 to 20 and 23 to 25 May 2016).

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

We have not used or do not propose to use the proceeds from the initial public offering in a manner different from that detailed in the prospectus of the Company dated 24 July 2012.

Regarding the opening of new halls which accounts for the large portion of the use of proceeds, the basic policy is set out in the Top Message from page 12 to page 15 and At a Glance from page 32 to page 33 of this Annual Report.

FINANCIAL HIGHLIGHTS

A summary of the audited results and of the assets and liabilities of the Group for the last five reporting years is set out from page 10 to page 11 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 23 of the financial statements on page 123 to page 124 of this Annual Report.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings are set out in note 35 of the financial statements on page 136 of this Annual Report. As at 31 March 2016, the Group's total current interest-bearing loans amounted to ¥2,369 million (2015:¥3,160 million) and the total non-current interest-bearing loans amounted to ¥18,394 million (2015: ¥9,160 million).

The Group did not grant any loans to any entities, nor did it offer any financial assistance to its associates or make any guarantee for the facilities granted to its associates.

Report of the **Directors**

SHARE CAPITAL

Details of movements in the share capital for the year ended 31 March 2016 are set out in note 42 to the financial statements on page 142 of this Annual Report.

RESERVES

Details of movements in the reserves of the Company for the year ended 31 March 2016 are set out in note 44 to the financial statements on page 145 to page 146 of this Annual Report.

The Company's reserves for distribution refer to retained profits and other capital surplus. In the opinion of the Directors, as at 31 March 2016, the Company had reserves available for distribution to its Shareholders of ¥65,430 million (2015: ¥73,592 million).

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

The Company has repurchased 15,669,800 ordinary Shares listed on the Hong Kong Stock Exchange during the period from 1 February 2016 to 31 March 2016 and has cancelled 14,825,600 Shares out of them. As at 31 March 2016, 844,200 Shares were repurchased but not yet cancelled. As at the Latest Practicable Date, all the repurchased Shares have been cancelled. Details of share repurchases are summarized as follows:

Month of repurchase	Total no. of shares repurchased	Repurchase price per share Highest (HK$)	Repurchase price per share Lowest (HK$)	Aggregate consideration (HK$)
February	3,225,800	14.22	8.99	41,445,898
March	12,444,000	14.96	11.18	174,359,132

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 March 2016.

PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires at least 25% of an issuer's total issued share capital must at all times be held by the public. We have applied to the Hong Kong Stock Exchange to request the Hong Kong Stock Exchange to exercise, and the Hong Kong Stock Exchange has agreed to exercise, its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of approximately 20.9% of our total issued share capital.

As of the date of this Annual Report, based on the information publicly available to the Company and to the best of the Board's knowledge, the Company has maintained the percentage of public float as accepted by the Hong Kong Stock Exchange during the period from 1 April 2015 to 31 March 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Incorporation or applicable laws of Japan where the Company was incorporated.

DIRECTORS

The Directors during the year ended 31 March 2016 and up to the date of this Annual Report are as follows:

Executive Director

Kohei SATO	reappointed on 24 June 2015
Yoji SATO	reappointed on 24 June 2015
Haruhiko MORI	appointed on 24 June 2015

Non-executive Director

Noriaki USHIJIMA	reappointed on 24 June 2015

Independent Non-executive Directors

Ichiro TAKANO	reappointed on 24 June 2015
Mitsutoshi KATO	reappointed on 24 June 2015
Thomas Chun Kee YIP	reappointed on 24 June 2015
Eisho KUNITOMO	appointed on 24 June 2015
Kei MURAYAMA	appointed on 24 June 2015
Katshide HORIBA	retired on 24 June 2015
Yukio YOSHIDA	retired on 24 June 2015

DIRECTORS' BIOGRAPHIES

Directors' biographies are set out in the "Biographies of Directors and Senior Management" from page 16 to page 31 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into any unexpired service contract with the Company which shall not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely Mr. Ichiro TAKANO, Mr. Mitsutoshi KATO, Mr. Thomas Chun Kee YIP, Mr. Eisho KUNITOMO and Mr. Kei MURAYAMA the annual confirmation letter of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that each independent non-executive Director has been independent from 1 April 2015 to 31 March 2016 and have remained independent as of the date of this Annual Report.

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

As at 31 March 2016, 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 Hong Kong 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 Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

(i) Interests in the Company

Name of Directors/ Chief executive officer	Nature of Interest	Number of Shares[(1)]	Approximate percentage of interest in the Company[(2)]
Mr. Yoji SATO	Interest in controlled corporation[(3)]	258,332,560	
	Interest in spouse[(3)]	760	
	Other[(5)]	197,571,800	
		455,905,120	59.453%
Mr. Kohei SATO	Beneficial owner[(4)]	55,139,680	
	Other[(5)]	400,765,440	
		455,905,120	59.453%
Mr. Haruhiko MORI	Beneficial owner[(6)]	230,000	0.030%
Mr. Noriaki USHIJIMA	Beneficial owner	838,000	0.109%
Mr. Ichiro TAKANO	Beneficial owner	20,000	0.003%

Notes:

(1) All interests stated are long positions.

(2) There were 766,830,096 Shares in issue as at 31 March 2016.

(3) SATO AVIATION CAPITAL LIMITED ("SAC") beneficially interested in 162,522,560 Shares is wholly owned and controlled by Mr. Yoji SATO. Rich-O beneficially interested in 95,810,000 Shares is owned as to 79.45% by SAC, 4.82% by Mr. Yoji SATO and 15.73 % by One Asia Hong Kong which is also wholly owned by Mr. Yoji SATO. Therefore, SAC is directly and indirectly controlled by Mr. Yoji SATO. Mrs. Keiko SATO, his wife, is beneficially interested in 760 Shares, and such interests are deemed to be Mr. Yoji SATO's interests under the SFO.

(4) Mr. Kohei SATO, one of the Sato Family Members, was reappointed as a director on 24 June 2015. He is beneficially interested in 55,139,680 Shares.

(5) The Sato Family Members consist of Mrs. Keiko SATO (wife of Mr. Yoji SATO), Mrs. Yaeko NISHIWAKI (sister of Mr. Yoji SATO), Mr. Masahiro SATO (brother of Mr. Yoji SATO), Mr. Shigehiro SATO (brother of Mr. Yoji SATO), Mr. Kohei SATO (brother of Mr. Yoji SATO), and Mr. Kiyotaka SATO (uncle of Mr. Yoji SATO). Each of the Sato Family Members is a family member of Mr. Yoji SATO and of each other, and is therefore deemed to be interested in the Shares in the Company in which Mr. Yoji SATO is interested, and Mr. Yoji SATO is deemed to be interested in the Shares which is interested by each Sato Family Member.

Save as disclosed above, as at 31 March 2016, 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 31 March 2016, 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[1]	Approximate percentage of Shareholding[2]
SAC	Beneficial owner[3]	162,522,560	21.194%
Rich-O	Beneficial owner[3]	95,810,000	12.494%
One Asia Foundation ("**One Asia**")	Beneficial owner[4]	80,000,000	10.433%
Mrs. Keiko SATO	Beneficial owner[5] Interest of spouse[5] Other[6]	760 258,332,560 197,571,800	
		455,905,120	59.453%
Mr. Kiyotaka SATO	Beneficial owner Other[6]	9,900,000 446,005,120	
		455,905,120	59.453%
Mr. Masahiro SATO	Beneficial owner Other[6]	45,059,680 410,845,440	
		455,905,120	59.453%
Mr. Shigehiro SATO	Beneficial owner Other[6]	46,575,680 409,329,440	
		455,905,120	59.453%
Mrs. Yaeko NISHIWAKI	Beneficial owner Other[6]	40,896,760 415,008,360	
		455,905,120	59.453%

Notes:

(1) All interests stated are long positions.

(2) There were 766,830,096 Shares in issue as at 31 March 2016.

(3) SAC beneficially interested in 162,522,560 Shares is wholly owned and controlled by Mr. Yoji SATO. Rich-O beneficially interested in 95,810,000 Shares is owned as to 79.45% by SAC, 4.82% by Mr. Yoji SATO and 15.73% by One Asia Hong Kong wholly owned by Mr. Yoji SATO and is therefore directly and indirectly controlled by Mr. Yoji SATO. Mrs. Keiko SATO, his wife, is beneficially interested in 760 Shares, and such interests are deemed to be Mr. Yoji SATO's interests under the SFO.

(4) One Asia is a general incorporated foundation (*ippan zaidan houjin* 一般財団法人). 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. Yoji SATO is interested in 258,332,560 Shares through SAC and Rich-O. 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. Yoji SATO), Mrs. Yaeko NISHIWAKI (sister of Mr. Yoji SATO), Mr. Masahiro SATO (brother of Mr. Yoji SATO), Mr. Shigehiro SATO (brother of Mr. Yoji SATO), Mr. Kohei SATO (brother of Mr. Yoji SATO), and Mr. Kiyotaka SATO (uncle of Mr. Yoji SATO). The Sato Family Members are the beneficial owners of 197,572,560 Shares. Each of the Sato Family Members is a family member of Mr. Yoji SATO and of each other, and is therefore deemed to be interested in the Shares in which Mr. Yoji SATO is interested, and Mr. Yoji SATO is deemed to be interested in the Shares which is interested by each Sato Family Member.

Save as disclosed above, as at 31 March 2016, the Directors were not aware of any persons (who were not Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the year ended 31 March 2016, the Company or any of its subsidiaries was not a party to any arrangement which would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate. None of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the shares or debentures of the Company or any other corporate body or had exercised any such right.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing Shares were entered into by the Company or any of its subsidiaries during the year ended 31 March 2016 or subsisted at the end of the year.

INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN COMPETING BUSINESS

During the year ended 31 March 2016, none of the Directors or their respective associates (as defined under the Listing Rules) of the Company was interested in any business which competes or is likely to compete with the businesses of the Group.

DIRECTOR'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements and contracts to which the Company or any of its subsidiaries was a party, and to which a Director had a material interest, subsisted at any time during or at the end of the year ended 31 March 2016.

REMUNERATION POLICY

The Group's remuneration policy is to compensate our employees based on their performance and qualifications and our results of operations.

The emoluments of our Directors and senior management are determined by our Remuneration Committee with reference to our results of operations, the individual performance of the Directors and senior management and so on.

The Company was not aware of any arrangement under which a Director has waived or agreed to waive any emoluments. Details of the remuneration of the Directors and the Group's five highest-paid individuals are set out in notes 52 and 20 respectively to the consolidated financial statements of this Annual Report.

PERMITTED INDEMNITY

The Articles of Incorporation provide that the Company may indemnify and hold each Director harmless against any loss or damage arising from his/her failure to perform the duties of his/her office to the extent as permitted by the Companies Act. In addition, the Company has implemented the liability insurance for Directors and other senior management against damage suits.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 March 2016.

DONATIONS

During the year ended 31 March 2016, the Group made donations of approximately ¥149 million.

PENSION SCHEME

The Company and its subsidiaries in Japan have established defined contribution pension system and retirement lump sum grants as our retirement benefit scheme.

Also, Dynam Hong Kong has introduced Mandatory Provident Fund scheme as a retirement protection scheme for their employees in Hong Kong.

Report of the **Directors**

MAJOR CUSTOMERS AND SUPPLIERS

Purchases of the Group attributable to its major suppliers respectively in the financial year were as follows:

	Year ended 31 March	
The largest supplier:	**2016**	2015
G-prize supplier	**51.5%**	53.0%
General prize supplier	**54.7%**	55.5%
Pachinko and pachislot machine supplier	**11.6%**	10.3%

	Year ended 31 March	
Top five suppliers:	**2016**	2015
G-prize supplier	**96.9%**	98.1%
General prize supplier	**86.0%**	89.6%
Pachinko and pachislot machine supplier	**44.3%**	41.2%

The nature of the Group's activities are such that the percentage of gross pay-ins attributable to the Group's five largest customers is significantly less than 30% of the total and the Directors do not consider any one customer or supplier to be influential to the Group.

To the best knowledge of the Directors, none of the Directors, their associates or any Shareholder holding more than 5% of the issued share capital of the Company, has any interest in any of the Group's five largest suppliers as disclosed above.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period and up to the Latest Practicable Date, the Company had complied with the Code, except for code provision E.1.3, which requires that notice for an annual general meeting should be sent to Shareholders at least 20 clear business days before the meeting and code provision A.2.1, which provides that the roles of chairman and chief executive should be performed by different individuals. Please refer to Corporate Governance Report from page 62 to page 67 of this Annual Report for further details.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding Directors' securities transactions. Specific enquiry has been made to all Directors, and the Directors have confirmed that they have complied with all relevant requirements as set out in the Model Code during the Reporting Period, the details are set out in the Corporate Governance Report on page 62 of this Annual Report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 March 2016 were prepared in accordance with IFRS and audited by PricewaterhouseCoopers Aarata ("PwC Aarata") to comply with the requirement of the Listing Rules.

Due to the retirement of RSM Nelson Wheeler as the auditor of the Company, PwC Aarata has been appointed as the auditor of the Company.

By order of the Board
Kohei SATO
Chairman of the Board

Japan, 26 May 2016

Corporate Governance **Report**

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 year ended 31 March 2016, 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 annual general meeting should be sent to Shareholders at least 20 clear business days before the meeting. The AGM for the year ended 31 March 2016 is scheduled to be held on 23 June 2016, while the AGM notice is expected to be dispatched on 31 May 2016. The above arrangement complies 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 is 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 2016). The Companies Act also requires the notice for the AGM to be dispatched together with the audited financial statements under 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 that annual report which accompanies the AGM notice to be dispatched to the Shareholders.

Code provision A.2.1

Code provision A.2.1 provides that the roles of chairman and chief executive should be performed by different individual.

However, the Board believes that Mr. Kohei SATO, in his dual capacity as the chairman of the Board and the Chief Executive Officer, will provide strong and consistent leadership for the development of the Company and its subsidiaries, and this will be beneficial and in the interests of the Company and its shareholders. Further, the Board considers that a balance of power and authority can be ensured by the current Board composition, with over half of the Board members being independent non-executive Directors.

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. The Company has made specific enquiry to all of the Directors, and all of the Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 March 2016. In addition to the Model Code, the Company has formulated and adopted the "Code of Conduct for Prevention of Insider Trading" as at 1 April 2014 for employees of the Company who are likely to have access to unpublished inside information of the Group.

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 senior management 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 senior management is 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 senior management is being held accountable for reporting to the Board at least once in every three months. The Board currently consists of nine Directors, comprising three 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 Mr. Kohei SATO who is the Chief Executive Officer and the Chairman of the Board are brothers.

Attendance of each Director at Board meetings, committees' meetings and Shareholders' meetings held during the year ended 31 March 2016 is as follows:

	Number of meetings held/able to attend				
	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Shareholders' meetings
Number of meetings held	14	15	11	9	2
Executive Director					
Mr. Kohei SATO (Chairman of the Board)	14/14	N/A	8/8	6/6	2/2
Mr. Yoji SATO	14/14	N/A	3/3	3/3	2/2
Mr. Haruhiko MORI	11/11	N/A	N/A	N/A	2/2
Non-executive Director					
Mr. Noriaki USHIJIMA	14/14	N/A	N/A	N/A	2/2
Independent Non-executive Director					
Mr. Ichiro TAKANO	14/14	15/15	N/A	N/A	2/2
Mr. Mitsutoshi KATO	14/14	N/A	11/11	9/9	2/2
Mr. Thomas Chun Kee	14/14	15/15	N/A	N/A	2/2
Mr. Eisho KUNITOMO	11/11	11/11	N/A	N/A	1/1
Mr. Kei MURAYAMA	11/11	N/A	8/8	6/6	1/1
Mr. Katsuhide HORIBA	3/3	N/A	3/3	3/3	1/1
Mr. Yukio YOSHIDA	3/3	4/15	N/A	N/A	1/1

Note 1:

(1) As at 24 June 2015, Mr. Yoji SATO retired as a member of Nomination Committee and a member of Remuneration Committee, and Mr. Kohei SATO was appointed as a member of Nomination Committee and a member of Remuneration Committee.

(2) At the AGM held 24 June 2015, Mr. Haruhiko MORI, Mr. Eisho KUNITOMO and Mr. Kei MURAYAMA were appointed as Directors and have attended all the Board meetings held on or after the same day.

(3) As at 24 June 2015, Mr. Katsuhide HORIBA and Mr. Yukio YOSHIDA retired as Directors.

Note 2:

(1) Those who were appointed or retired as Directors at the AGM held 24 June 2015 attended all Shareholders' meetings, Board meetings and meetings of committee(s) of which he was a member during his appointment.

(2) Board meetings were held 14 times, Audit Committee meetings were held 15 times, Remuneration Committee meetings were held 11 times and Nomination Committee meetings were held 9 times. Shareholders' meetings including one extraordinary meeting were held 2 times.

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 year ended 31 March 2016, Mr. Ichiro TAKANO, Mr. Mitsutoshi KATO, Mr. Thomas Chun Kee YIP, Mr. Eisho KUNITOMO and Mr. Kei MURAYAMA 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 the code provision A.6.5 of the Code, Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The purpose of the code provision is to get the Directors involved in the Board with an awareness of contribution thereto. Since the listing date up to 31 March 2016, all of the Directors have been 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. Thomas Chun Kee YIP and Mr. Eisho KUNITOMO. 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 15 meetings during the year ended 31 March 2016 with an attendance rate of 100%. The results for the year ended 31 March 2016 have been reviewed by the Audit Committee.

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. Mitsutoshi KATO (chairman) and Mr. Kei MURAYAMA, and one executive Director, namely Mr. Kohei SATO. Main duties of the Remuneration Committee is to review and recommend the remuneration package of all Directors and other senior management of the Group.

The remuneration committee held 11 meetings during the year ended 31 March 2016 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.

Details of the Directors' remuneration are set out in note 52 to the financial statements. In addition, pursuant to the code provision B.1.5, the annual remuneration of other members of the senior management by bands for the year ended 31 March 2016 is set out below:

Remuneration bands	**Number of individuals**
HK$300,001 to HK$500,000 (equivalent to ¥4,359,015 to ¥7,265,000)	1
HK$500,001 to HK$1,000,000 (equivalent to ¥7,265,015 to ¥14,530,000)	0
HK$1,000,001 to HK$2,000,000 (equivalent to ¥14,530,015 to ¥29,060,000)	3
HK$2,000,001 to HK$3,000,000 (equivalent to ¥29,060,015 to ¥43,590,000)	2

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. Mitsutoshi KATO (chairman) and Mr. Kei MURAYAMA, and one executive Director, namely Mr. Kohei 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 9 meetings during the year ended 31 March 2016 with an attendance rate of 100%. The Nomination Committee has recommended the appointment of Directors for the approval of the Shareholders at the AGM held in June 2016.

CORPORATE GOVERNANCE FUNCTIONS

The Board is collectively responsible for performing the following corporate governance duties including:

- to develop and review the Company' s policy and practices on corporate governance, and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with Code and disclosure in the Corporate Governance Report.

Corporate Governance **Report**

During the year ended 31 March 2016, the Company has prepared and adopted "Regulations on Prevention of Insider Trading" (with effect from 1 April 2014), which includes a guideline for officers and employees to report unpublished inside information to the Company to ensure consistent and timely disclosure and fulfillment of the Company's continuous obligations.

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Directors recognise the responsibility for preparing the 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 senior management develops operational guidelines on anti-money laundering measures and evaluates the measures for effectiveness on a regular basis. In addition, the Group amended the existing "Anti-Money Laundering Manual" on 30 March 2015 thereby improving its internal arrangement for more effective and efficient internal audit.

The Group as a pachinko operator is subject to various requirements and restrictions under various Japanese laws 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 senior management for investigation and remediation. In addition, the hall staff are trained to detect irregular customer activities, particularly those involving large amount of cash.

AUDITOR'S REMUNERATION

The Company's external auditor is PricewaterhouseCoopers Aarata.

During the year ended 31 March 2016, the fees payable by the Group to the external auditor in respect of audit and non-audit services provided by them were as follows:

	¥ million	**HK$ million(3)**
Audit services(2)	86	6
Non-audit services	–	–
Total fees	86	6

Note:

(1) Yume Corporation, one of our subsidiaries, was audited by an audit firm instead of PricewaterhouseCoopers Aarata.

(2) Audit services in connection with the audit of the financial statements of the Company and its subsidiaries for the year ending 31 March 2016.

(3) Translated into Hong Kong dollars at the rate of ¥14.53 to HK$1.00, the exchange rate prevailing on 31 March 2016 (i.e. the last business day in March 2016).

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 dynamjapan_ir@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 date 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 Hong Kong Stock Exchange.

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 of the Company also respond to inquiries from Shareholders and investment community promptly.

Amendments to the Articles of Incorporation

On 25 June 2015, partial amendment was made to the Articles of Incorporation to reflect that the type of the Company under the Companies Act was renamed from "Company with Committees" to "Company with Nomination Committee, Etc." upon an amendment to the Companies Act with effect from 1 May 2015.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

During the year ended 31 March 2016, Mr. Haruhiko MORI, Mr. Eisho KUNITOMO and Mr. Kei MURAYAMA were appointed as Directors with effect from 24 June 2015. Mr. Katsuhide HORIBA and Mr. Yukio YOSHIDA retired as Directors with effect from 24 June 2015. 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.

JOINT COMPANY SECRETARIES

The Company engages Ms. MOK Ming Wai ("**Ms. MOK**"), director of KCS Hong Kong Limited, as one of its joint company secretaries. The primary corporate contact person of the Company is Mr. Norio HARASAWA ("**Mr. HARASAWA**"), the other joint company secretary appointed by the Company on 26 June 2014. The Company has complied with Rule 3.29 of the Listing Rules since Ms. MOK and Mr. HARASAWA have undertaken no less than 15 hours of relevant profession training during the year ended 31 March 2016.

Independent **Auditor's Report**

pwc

TO THE SHAREHOLDERS OF
DYNAM JAPAN HOLDINGS Co., Ltd.
(incorporated in Japan with limited liability)

We have audited the consolidated financial statements of Dynam Japan Holdings Co., Ltd. ("the Company") and its subsidiaries (together, the Group) set out on pages 70 to 154, which comprise the consolidated statement of financial position as at 31 March 2016, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers Aarata
Sumitomo Fudosan Shiodome Hamarikyu Bldg., 8-21-1 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel: +81 (3) 3546 8450, Fax: +81 (3) 3546 8451, www.pwc.com/jp/assurance

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2016, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers Aarata
Certified Public Accountants

Japan, 26 May 2016

Consolidated Statement of **Income**

FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 ¥ million	2015 ¥ million
Revenue	13	**155,911**	154,556
Hall operating expenses	14(a)	**(138,326)**	(134,659)
General and administrative expenses	14(b)	**(5,798)**	(5,456)
Other income	16(a)	**8,184**	6,850
Other operating expenses	16(b)	**(1,805)**	(1,947)
Operating profit		**18,166**	19,344
Finance income	17	**311**	2,151
Finance expenses	18	**(1,074)**	(1,977)
Profit before income tax		**17,403**	19,518
Income taxes	19	**(6,864)**	(8,259)
Net profit for the year		**10,539**	11,259
Net profit attributable to:			
Owners of the Company		**10,544**	11,303
Non-controlling interests		**(5)**	(44)
Net profit		**10,539**	11,259
Earnings per share	22		
Basic (¥)		**13.9**	15.2
Diluted (¥)		**13.9**	15.2

The notes on pages 77 to 154 are an integral part of these consolidated financial statements.

Consolidated Statement of **Comprehensive Income**

FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 ¥ million	2015 ¥ million
Net profit for the year		**10,539**	11,259
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit retirement plans	38(a)	**(9)**	–
—Income tax arising from actuarial gain or loss thereof		**3**	(1)
Changes in fair value of financial assets measured at fair value through other comprehensive income		**(4,510)**	–
— Income tax effect of changes in fair value of financial assets measured at fair value through other comprehensive income		**237**	–
		(4,279)	(1)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(494)**	1,143
Changes in fair value of available-for-sale financial assets		**–**	(8,979)
— Income tax effect of changes in fair value of available-for-sale financial assets		**–**	21
		(494)	(7,815)
Other comprehensive income for the year, net of tax	45	**(4,773)**	(7,816)
Total comprehensive income for the year		**5,766**	3,443
Total comprehensive income attributable to:			
Owners of the Company		**5,768**	3,487
Non-controlling interests		**(2)**	(44)
Total comprehensive income		**5,766**	3,443

The notes on pages 77 to 154 are an integral part of these consolidated financial statements.

Consolidated Statement of **Financial Position**

AT 31 MARCH 2016

	Note	2016 ¥ million	2015 ¥ million
Non-current assets			
Property, plant and equipment	23,49	**109,532**	99,961
Investment properties	24	**2,179**	740
Intangible assets	25	**3,991**	1,029
Financial assets measured at fair value through other comprehensive income	26	**6,479**	–
Available-for-sale financial assets	27	**–**	8,807
Deferred tax assets	39	**11,229**	10,954
Other non-current assets	29	**12,534**	10,722
		145,944	132,213
Current assets			
Inventories	30	**3,580**	4,493
Trade receivables	9(b)	**459**	486
Financial assets measured at fair value through profit or loss (under IAS39)	28	**–**	2,925
Prizes in operation of pachinko halls	31	**4,916**	4,292
Other current assets	32	**6,151**	7,288
Cash and cash equivalents	33	**28,134**	29,239
		43,240	48,723
TOTAL ASSETS		**189,184**	180,936
Current liabilities			
Trade and other payables	34	**17,786**	20,468
Borrowings	35	**2,369**	3,160
Finance lease payables	36	**86**	254
Provisions	40	**1,731**	1,610
Income taxes payables		**2,497**	719
Other current liabilities	37	**6,369**	5,169
		30,838	31,380
Net current assets		**12,402**	17,343
Total assets less current liabilities		**158,346**	149,556

	Note	**2016** **¥ million**	2015 ¥ million
Non-current liabilities			
Deferred tax liabilities	39	**20**	175
Borrowings	35	**18,394**	9,160
Finance lease payables	36	**126**	66
Retirement benefit obligations	38	**243**	–
Other non-current liabilities	41	**1,685**	1,002
Provisions	40	**5,259**	4,100
		25,727	14,503
NET ASSETS		**132,619**	135,053
Capital and reserves			
Share capital	42	**15,000**	15,000
Capital reserve	44(a)	**12,883**	10,129
Treasury shares	42	**(289)**	–
Retained earnings	44(a)	**110,253**	111,037
Other component of equity	44(a)	**(5,202)**	(1,089)
Equity attributable to owners of the Company		**132,645**	135,077
Non-controlling interests		**(26)**	(24)
TOTAL EQUITY		**132,619**	135,053

The notes on pages 77 to 154 are an integral part of these consolidated financial statements.

Consolidated Statement of **Changes in Equity**

FOR THE YEAR ENDED 31 MARCH 2016

	Attributable to equity holders of the Company											
					Other component of equity							
	Share capital	Capital reserve	Treasury shares	Retained earnings	Investment revaluation reserve	Fair value of financial assets at FVTOCI	Foreign currency translation reserve	Other reserves	Total	Total	Non-controlling interests	Total equity
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
At 1 April 2014	15,000	10,129	–	110,136	5,829	–	894	2	6,725	141,990	20	142,010
Profit for the year	–	–	–	11,303	–	–	–	–	–	11,303	(44)	11,259
Other comprehensive income for the year	–	–	–	–	(8,958)	–	1,143	(1)	(7,816)	(7,816)	1	(7,815)
Transfer to retained earnings	–	–	–	(2)	–	–	–	2	2	–	–	–
Total comprehensive income for the year	–	–	–	11,301	(8,958)	–	1,143	1	(7,814)	3,487	(44)	3,443
2015 dividend	–	–	–	(10,400)	–	–	–	–	–	(10,400)	–	(10,400)
Total changes in equity for the year	–	–	–	901	(8,958)	–	1,143	1	(7,814)	(6,913)	(44)	(6,957)
At 31 March 2015	15,000	10,129	–	111,037	(3,129)	–	2,037	3	(1,089)	135,077	(24)	135,053
At 1 April 2015	**15,000**	**10,129**	**–**	**111,037**	**(3,129)**	**–**	**2,037**	**3**	**(1,089)**	**135,077**	**(24)**	**135,053**
Cumulative effect of applying new standards and interpretations	**–**	**–**	**–**	**(868)**	**3,129**	**(2,201)**	**(60)**	**–**	**868**	**–**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**10,544**	**–**	**–**	**–**	**–**	**–**	**10,544**	**(5)**	**10,539**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(4,273)**	**(497)**	**(6)**	**(4,776)**	**(4,776)**	**3**	**(4,773)**
Transfer to retained earnings	**–**	**–**	**–**	**205**	**–**	**(211)**	**–**	**6**	**(205)**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**10,749**	**–**	**(4,484)**	**(497)**	**–**	**(4,981)**	**5,768**	**(2)**	**5,766**
Increase by share exchanges	**–**	**5,775**	**(149)**	**–**	**–**	**–**	**–**	**–**	**–**	**5,626**	**–**	**5,626**
Acquisition of treasury shares	**–**	**–**	**(3,161)**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,161)**	**–**	**(3,161)**
Cancellation of treasury shares	**–**	**(3,021)**	**3,021**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2016 dividend	**–**	**–**	**–**	**(10,665)**	**–**	**–**	**–**	**–**	**–**	**(10,665)**	**–**	**(10,665)**
Total changes in equity for the year	**–**	**2,754**	**(289)**	**84**	**–**	**(4,484)**	**(497)**	**–**	**(4,981)**	**(2,432)**	**(2)**	**(2,434)**
At 31 March 2016	**15,000**	**12,883**	**(289)**	**110,253**	**–**	**(6,685)**	**1,480**	**3**	**(5,202)**	**132,645**	**(26)**	**132,619**

Consolidated Statement of **Cash Flows**

FOR THE YEAR ENDED 31 MARCH 2016

	2016 **¥ million**	2015 ¥ million
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**17,403**	19,518
Adjustments for:		
Finance expenses	**1,074**	1,977
Finance income	**(311)**	(2,151)
Depreciation	**11,597**	10,340
Amortisation of intangible assets	**420**	584
Loss on disposals and write off of property, plant and equipment	**301**	168
Impairment loss on property, plant and equipment	**189**	872
Fair value (gain)/loss from investment properties	**(79)**	5
Other adjustments	**(64)**	20
Operating profit before working capital changes:	**30,530**	31,333
(Increase)/decrease in prizes in operation of pachinko halls	**(352)**	32
Decrease/(increase) in inventories	**568**	(2,545)
Decrease in trade receivables	**32**	92
(Increase)/decrease in other non-current assets	**(223)**	62
Decrease/(increase) in other current assets	**1,633**	(1,709)
(Decrease)/Increase in trade and other payables	**(3,635)**	1,018
Increase in other current liabilities	**395**	2,089
Decrease in other non-current liabilities	**(526)**	(543)
Increase/(decrease) in retirement benefit obligations	**1**	(63)
Increase/(decrease) in current provisions	**28**	(9)
Cash generated from operations	**28,451**	29,757
Income taxes paid	**(3,489)**	(15,316)
Finance expenses paid	**(889)**	(1,025)
Net cash generated from operating activities	**24,073**	13,416

Consolidated Statement of **Cash Flows**

FOR THE YEAR ENDED 31 MARCH 2016

	Note	**2016** **¥ million**	2015 ¥ million
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(12,613)**	(16,008)
Purchase of intangible assets		**(582)**	(362)
Proceeds from disposal of property, plant and equipment		**192**	–
Acquisition of subsidiaries, net of cash acquired		**1,733**	–
Purchase of available-for-sale financial assets		**–**	(818)
Purchase of financial assets measured at fair value through other comprehensive income		**(239)**	–
Proceeds from disposal of financial assets measured at fair value through other comprehensive income		**474**	–
Finance income received		**177**	133
Decrease in time deposits		**207**	–
Other adjustments		**(2)**	42
Net cash used in investing activities		**(10,653)**	(17,013)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans raised		**11,788**	17,600
Repayment of bank loans		**(12,914)**	(9,218)
Repayment of finance leases		**(260)**	(880)
Acquisition of treasury shares		**(3,161)**	–
Dividends paid	21	**(10,665)**	(10,400)
Net cash used in financing activities		**(15,212)**	(2,898)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**687**	898
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,105)**	(5,597)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**29,239**	34,836
CASH AND CASH EQUIVALENTS AT END OF YEAR	33	**28,134**	29,239
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**28,134**	29,239

The notes pages 76 to 152 are an integral part of these consolidated financial statements.

Notes **to the Consolidated Financial Statements**

FOR THE YEAR ENDED 31 MARCH 2016

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 consolidated financial statements of the Company as of 31 March 2016 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 consolidated financial information was approved and authorised for issuance by the Board of Directors on 26 May 2016.

In the opinion of the directors of the Company, as at 31 March 2016, Mr. Yoji Sato and Sato Family Members are the ultimate controlling parties of the Company.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets measured at fair value through other comprehensive income, investment properties and defined benefit pension plan which are carried at their fair values.

3. REPORTING CURRENCY

The consolidated financial statements are presented in Japanese Yen, which is the functional currency of the Company and rounded to the nearest million yen, unless otherwise stated.

4. USE OF ESTIMATES AND JUDGEMENTS

In the preparation of the Group's 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.

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following new standards and amendments have been issued and effective for annual periods beginning on 1 April 2015 with no impact on the Group's results of operations and financial position:

— IAS19 (Amendment), 'Defined Benefit Plans: Employee Contributions'
— IFRSs (Amendment), 'Annual Improvements to IFRSs 2010-2012 Cycle'
— IFRSs (Amendment), 'Annual Improvements to IFRSs 2011-2013 Cycle'

Effective from 1 April 2015, the Group has early adopted the below listed new standard for the consolidated financial information.

IFRSs	Title	Summary of new standards and amendments
IFRS9	Financial instruments	IFRS 9 'Financial Instruments' (issued in July 2014) is the comprehensive standard, containing new requirements for classification and measurement, impairment and hedge accounting for financial assets and liabilities

In accordance with the transitional provisions in IFRS 9.7.2.15, comparative figures have not been restated. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; de-recognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

(a) Classification and measurement of financial instruments

The total impact on the Group's retained earnings due to classification and measurement of financial instruments as at 1 April 2015 is as follows:

	¥ million
Opening retained earnings — IAS 39	111,037
Elected to present subsequent changes in fair value of investments in equity instruments in other comprehensive income (FVTOCI)(*) that were measured through profit or loss (FVTPL)(**)	(868)
Opening retained earnings — IFRS 9	110,169

* FVTOCI: Financial assets measured at fair value through other comprehensive income
** FVTPL: Financial assets measured at fair value through profit or loss

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

(a) ***Classification and measurement of financial instruments*** *(Continued)*

On 1 April 2015, management has assessed which business model apply to the financial assets held by the Group at the date of initial application of IFRS 9 (1 April 2015) and has classified its financial instruments into the appropriate IFRS 9 categories. The reclassification to IFRS 9 categories has no impact on measurement categories. The main effects resulting from this reclassification are as follows:

	Note	IAS 39 carrying amount 31 March 2015	Reclassifications	Re-measurements	IFRS 9 carrying amount 1 April 2015
Financial assets					
Fair value through profit or loss					
Reclassified to FVTOCI (IFRS 9)	(i)	2,925	(2,925)	–	–
Total change to FVTPL		2,925	(2,925)	–	–
Fair value through other comprehensive income					
Reclassified from available-for-sales (IAS 39)	(ii)	8,807	–	–	8,807
Reclassified from FVTPL (IAS 39)	(i)	–	2,925	–	2,925
Total change to FVTOCI		8,807	2,925	–	11,732

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

(a) *Classification and measurement of financial instruments* (Continued)

The impact of these changes on the Group's equity is as follows:

	Notes	Effect on AFS(*) reserves ¥ million	Effect on FVTOCI reserve ¥ million	Effect on Foreign Exchange ¥ million	Effect on retained earnings ¥ million
Opening balance — IAS 39		(3,129)	–	2,037	111,037
Reclassify investments in non-trading equities instruments from AFS to FVTOCI	(ii)	3,129	(3,129)	–	–
Reclassify investments in non-trading equity instruments from FVTPL to FVTOCI	(i)	–	928	(60)	(868)
Total impact		3,129	(2,201)	(60)	(868)
Opening balance — IFRS 9		–	(2,201)	1,977	110,169

* AFS: Available-for-sale financial assets

(i) **Equity investments previously classified as financial assets measured at fair value through profit or loss**

The Group elected to present in other comprehensive income changes in fair value of all its equity investments previously classified as financial assets measured at fair value through profit or loss because the Group considered their investment purpose at the date of initial application of IFRS 9. As a result, assets with a fair value of ¥2,925 million were reclassified from financial assets measured at fair value through profit or loss to financial assets at fair value through other comprehensive income, and fair value gains of ¥928 million and foreign exchange losses of ¥60 million were reclassified from retained earnings to financial assets at fair value through other comprehensive reserve. The change in fair value of financial assets reclassified from through profit or loss to through other comprehensive income as a result of transition to IFRS 9 at the end of the year ended 31 March 2016 is ¥1,936 million. Finance expenses for the year ended 31 March 2016 was ¥989 million lower as there is no longer recognition of changes in fair value in profit or loss.

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

(a) ***Classification and measurement of financial instruments*** *(Continued)*

(ii) Equity investments previously classified as available-for-sale financial assets

The Group elected to present in other comprehensive income changes in the fair value of all its equity: investments previously classified as available-for-sale financial assets, because these investments are not held for trading. As a result, financial assets with a fair value of ¥8,807 million were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income and fair value losses of ¥3,129 million were reclassified from the available-for-sale financial assets reserve to the financial assets at fair value through other comprehensive income reserve on 1 April, 2015. Finance income for the year ended 31 March 2016 was ¥212 million lower as there is no longer reclassification of accumulated amounts from reserves to profit or loss on the disposal of these investments (tax impact ¥70 million).

(iii) Reclassifications of financial instruments on adoption of IFRS 9

On the date of initial application, 1 April 2015, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement Category		Carrying amount		
	Original (IAS 39)	**New (IFRS 9)**	**Original ¥ million**	**New ¥ million**	**Difference**
Non-current financial assets					
Equity securities	Available for sale	FVTOCI	8,807	8,807	–
Government bonds	Held to maturity	Amortised cost	10	10	–
Rental deposits	Amortised cost	Amortised cost	5,510	5,510	–
Current financial assets					
Trade receivables	Amortised cost	Amortised cost	486	486	–
Equity securities	FVTPL	FVTOCI	2,925	2,925	–
Cash and equivalents	Amortised cost	Amortised cost	29,239	29,239	–
Other receivables	Amortised cost	Amortised cost	1,522	1,522	–
Current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	11,100	11,100	–
Borrowings	Amortised cost	Amortised cost	12,320	12,320	–

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

(b) Derivatives and hedging activities

Hedge accounting is more closely aligned with financial risk management, and the requirements for general hedge accounting have been simplified for effectiveness testing.

As a result, hedge accounting is applied to a greater variety of hedging instruments and risks.

However, the adoption of IFRS 9 did not have a material impact on the Group's results of operations and financial position.

(c) Impairment of financial assets

The IFRS 9 impairment requirements are based on an expected credit loss model that replaces the incurred loss model under IAS39 Financial Instruments: Recognition and Measurement.

As a result, the impairment allowance is intended to be more forward-looking and the resulting impairment charge will tend to be more volatile than under the previous accounting standard.

However, the adoption of IFRS 9 did not have a material impact on the Group's results of operations and financial position.

6. NEW STANDARDS, AMENDMENTS TO EXISTING STANDARDS AND INTERPRETATIONS THAT ARE PUBLISHED BUT HAVE NOT YET BEEN ADOPTED BY THE GROUP

The new standards, amendments to existing standards and interpretations have been published before the approval date of the consolidated financial statements, but the Group has not early adopted are as follows. The impact to the consolidated financial statements through adoption is still under investigation and it is difficult to estimate at this moment.

IFRS		Mandatory for fiscal year beginning on or after	Adopted by the group from fiscal year ended	Summary of new standards and amendments
IFRS15	Revenue from Contracts with Customers	1 January 2018	March 2019	Amendment with regard to the accounting of revenue recognition
IFRS16	Leases	1 January 2019	March 2020	Requirement for lessee to recognise most lease contracts on the statement of financial position

In addition to the above, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap.622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

7. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 8 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Comprehensive losses arising from subsidiaries are allocated to the owners of the Company and non-controlling interests even if the balances of non-controlling interests are a negative figure.

The financial statements of the subsidiaries are adjusted to prepare for the same reporting period as the Group if closing dates of the subsidiaries are different from the date of consolidated financial statements.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Notes **to the Consolidated Financial Statements**

FOR THE YEAR ENDED 31 MARCH 2016

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) ***Consolidation*** *(Continued)*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the end when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) ***Merger accounting for business combinations under common control***

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 1 December 2011.

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group (the "Continuing Group"). Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the companies comprising the Group for the three years ended 31 March 2012, rather than from the date on which the Reorganisation was completed.

The Continuing Group was both controlled by the shareholders of DYNAM HOLDINGS Co., Ltd. ("Dynam Holdings") both before and after the Reorganisation, thus, the Reorganisation was accounted for as a business combination of entities under common control. The financial statements of the Continuing Group have been prepared based on the principles and procedures of merger accounting as if the Reorganisation had occurred from the date when the combining entities first came under the control of the shareholders of Dynam Holdings.

The consolidated financial statements incorporate the financial statements of the combining entities as if they had been combined from the date when they first came under the control of the controlling party.

The consolidated statements of income and consolidated statement of comprehensive income and consolidated statements of cash flows include the results and cash flows of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The consolidated statements of financial position have been prepared to present the assets and liabilities of the combining entities. The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's interest.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations (other than under common control)

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Acquisition-related costs are expensed as incurred.

The excess of the

— consideration transferred,

— amount of any non-controlling interest in the acquired entity, and

— acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in consolidation profit or loss as a bargain purchase.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Japanese yen ("¥" or "JPY"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) ***Foreign currency translation*** *(Continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

(f) ***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company that makes strategic decisions.

(g) ***Property, plant and equipment***

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost also includes the initially estimated costs of dismantling and removing the item and restoring the site to the original state.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) ***Property, plant and equipment*** *(Continued)*

Pachinko and pachislot machine expenses are recognised in profit or loss when it is installed for use in the operation of pachinko hall.

Depreciation of property, plant and equipment is calculated at rates appropriate to write off their cost less their residual values over the estimated useful lives on a straight-line basis and reducing balance basis. The principal useful lives are as follows:

Freehold land	Not applicable
Buildings including leasehold improvements	2-50 years
Tools and equipment	4-20 years
Motor vehicles	5 years

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings and structures under construction, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(h) ***Investment properties***

Investment properties are land, buildings and structures held for long-term rental yields or for capital appreciation or both. An investment property is measured initially at its cost including all direct costs attributable to the property. After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer.

Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment as appropriate, and its fair value at the date of reclassification becomes its cost for accounting purposes.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Intangible assets

(i) Goodwill

Goodwill arises on the acquisitions of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

(ii) Trademarks and Computer software

Trademarks and Computer software are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives as follows:

Trademarks	10 years
Computer software	5 years

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leases (lessee)

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

(k) Inventories

(i) Supplies

Supplies represent pachinko and pachislot machineries and consumables for use in the operation of halls and are stated at the lower of cost and net realisable value.

Pachinko and pachislot machineries which are not yet installed for the use in a pachinko hall are stated on the specific costing basis. The carrying amount is reduced to the net realisable value when the value becomes lower than the cost.

Cost of consumables for use in the operation of halls is determined using the first in, first out basis.

(ii) Property under development for sale

Property under development for sale are carried at the lower of cost and net realisable value.

The cost of property under development for sale comprises specifically identified cost, including aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition. On completion, the properties are reclassified to properties held for sale at the then carrying amount.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Prizes in operation of pachinko halls

Prizes are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to sale proceeds less selling expenses. Cost is determined using the weighted average basis.

(m) Financial assets

(i) **Derivative instruments and hedge accounting**

The Group utilises derivative instruments primarily to manage interest rate risks and to reduce exposure to movements in foreign exchange rates. The Group initially recognises derivatives as assets or liabilities at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. For derivatives designated as qualifying hedge instruments, subsequent changes in fair value are recognised according to the objective and designation of the hedge. Subsequent changes in the fair value of derivatives not designated as qualifying hedging instruments are recognised in profit or loss.

(ii) **Non-derivative financial assets**

Initial Recognition and measurement

The Group recognises trade receivable and other receivables on the date they arise and all other financial assets on the trade date when the Group became a party to the contract concerning such financial instruments.

At the point of initial recognition, the Group classifies financial assets into the following categories: an asset category measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification and measurement of financial assets is determined on the basis of the contractual cash flow characteristics and the objective of the business model associated with holding the asset.

The Group recognises financial assets at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets except for those financial assets that subsequent change in fair value is recognised in profit or loss. For financial assets measured at FVTPL, transaction costs are recognised in profit or loss when they occur.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) ***Financial assets*** *(Continued)*

(ii) Non-derivative financial assets *(Continued)*

Subsequent measurement

Subsequent measurement of financial assets after initial recognition depends on the classifications of financial assets as follows:

(1) Financial assets measured at amortized cost

The Group measures financial assets at amortised cost when both of the following conditions are met:

— the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

— the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At the end of each reporting period, interest revenue is calculated by using the effective interest method, applying the effective interest rate to the gross carrying amount of financial assets.

In case where financial assets measured at amortised cost is derecognised, the difference between the carrying amount and the consideration received or receivable is recognised in profit or loss.

(2) Financial assets measured at fair value through other comprehensive income

The Group measures financial assets at FVTOCI when both of the following conditions are met:

— the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

— the contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in the fair value of financial assets measured at FVTOCI are recognised in other comprehensive income until derecognised. Upon derecognition, the accumulated changes are reclassified from equity to profit or loss.

Interest revenue from these financial assets is recognised directly in profit or loss.

In addition to those financial assets meeting both of the conditions above and measured at FVTOCI, the Group presents subsequent changes in fair value of particular investments in equity instruments in other comprehensive income when at initial recognition, the Group makes an irrevocable election on those investments in equity instruments that are not held with the objective of obtaining gains on short-term sales.

Dividends from these investments are recognised in profit or loss.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) ***Financial assets*** *(Continued)*

(ii) Non-derivative financial assets *(Continued)*

Subsequent measurement (Continued)

(3) Financial assets measured at fair value through profit or loss (FVTPL)

All financial assets that are other than those categorised in (1) and (2) above are categorised as financial assets measured at FVTPL.

(iii) Impairment

Financial assets measured at amortised cost and fair value through other comprehensive income (i.e. loans, debt securities, and accounts receivables), lease receivables and certain loan commitments and financial guarantee contracts are assessed for credit risks.

The Group recognises either a 12-months' or lifetime expected credit losses (ECL) depending on whether there has been a significant increase in credit risk since initial recognition. When there is a significant increase in credit risk, an allowance is recognised for ECL resulting from possible defaults over the expected life of the financial instrument. When there is not, an allowance is recognised for ECL resulting from possible defaults within the next 12 months.

An impairment gain or loss, the amount required to adjust the loss allowance at the reporting date is recognised in profit or loss.

The assessment of credit risk and the estimation of ECL are to be unbiased and probability-weighted, and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the reporting date.

(iv) Derecognition of financial assets

The Group derecognises financial assets when and only when the contractual rights to the cash flows from the financial assets expire, or when the financial assets and substantially all the risks and rewards of ownership are transferred.

(v) Presentation of financial assets and liabilities

When both of the following conditions are met, financial assets and financial liabilities are offset and the net amount is disclosed in the consolidated statement of financial position.

— The Group currently has a legally enforceable right to offset the recognised amounts; and

— The Group intends to settle on a net amount basis or to simultaneously realise the asset and settle the liability.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial liabilities

The Group has non-derivative financial liabilities including loans payable, trade and other payables and derivative financial liabilities.

(For derivative financial liabilities, refer to (m) Financial assets (i) Derivative instruments and hedge accounting for further details.)

Non-derivative financial liabilities are initially recognised at fair value minus transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, changes in fair value of the financial liabilities are measured at amortised cost based on the effective interest method with interest expense recognised on an effective yield basis.

Non-derivative financial liabilities are derecognised when the underlying obligation specified in the contract is discharged, cancelled or expires.

(o) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions and short-term highly liquid financial assets with original maturities of three months or less and subject to an insignificant risk of change in value. Although the bank overdrafts arisen due to the Group's cash management policy are repaid upon demand from financial institutions, the amount of overdrafts is included as a component of cash and cash equivalents.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Revenue

The principal activities of the Group are operations of pachinko and pachislot games halls which provide a series of services from renting pachinko balls and pachislot tokens to exchanging prizes.

Revenue from pachinko and pachislot games represents the gross pay-ins, less gross payouts to customers.

Gross pay-ins represents the amount received from pachinko balls and pachislot tokens rented to customers less unutilised balls and tokens. Gross payouts represents the aggregate cost of G-prize and general prize exchanged by customers.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) ***Revenue recognition*** *(Continued)*

(ii) Other income

Based on contract conditions, income from commission of vending machines and store merchandising are recognised on accrual basis.

Income from invalidation of saved balls, which means a deposit of balls in the customer's membership card, and can be withdrawn and used for exchanging for prizes or playing games in the future, is recognised on accrual basis in accordance with the membership terms and conditions.

Income from invalidation of unused amount in pre-paid IC card, which means the amount of unused balls and tokens, is recognised after the right is expired.

Sales from property held for sale is recognised on accrual basis after the delivery of the properties in accordance with the sales contracts.

Rent income is recognised on a straight-line method over the lease term.

(iii) Interest income and dividend income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

(q) ***Employee benefits***

(i) Short-term employee benefits

The Group recognises the undiscounted amount of short-term employee benefits as an expense of the period during which the related service is rendered.

A provision is made for the estimated liability for annual leave and long service leave when the Group has a present obligation (legal or constructive) as a result of services rendered by employees up to the end of the reporting period and reliable estimate can be made of the amount of the obligation.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) ***Employee benefits*** *(Continued)*

(ii) Retirement benefit obligations

The Group operates various post-employment schemes, including both defined contribution retirement plans and defined benefit retirement plans.

(1) Defined contribution retirement plans

Contributions to the plans by the Group are calculated as a percentage of employees' basic salaries. The retirement benefit plan cost charged to profit or loss represents contributions payable by the Group to the funds.

(2) Defined benefit retirement plans

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of reporting period less the fair value of plan assets.

The present value of the defined benefit obligation, current service costs and past service costs are calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and in the consolidated statement of financial position.

(r) ***Taxation***

Income tax represents the sum of the current tax and deferred tax.

Current tax is calculated based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it includes items from previous years that were not deductible or taxable, excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) ***Taxation*** *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

(s) ***Impairment of non-financial assets***

(i) Impairment of tangible and intangible assets except goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) if no impairment loss had been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(ii) Impairment of goodwill

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

In assessing present value, the estimated future expenditures are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liabilities.

(u) Treasury share

The Company's own equity instruments which are reacquired are recognised at cost including acquisition related costs, after tax effects, as a deduction from equity.

When the Company cancels treasury shares, carrying amount of the shares is recognised as the deduction to capital reserves. No gain or loss is recognised in reacquisition and cancellation of the treasury shares.

8. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, contingent liabilities and their accompanying disclosures.

The estimates and underlying assumptions are based upon historical experience and other factors that are believed to be reasonable under the circumstances.

Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates and assumptions.

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.

Estimates and judgments made by management that have a significant effect on the amounts recognised in the consolidated financial statements are as follows;

8. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(a) Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment has any indication of impairment in accordance with the accounting policy. The recoverable amount of property, plant and equipment is determined from the higher of fair value less costs of disposal and value in use calculation. This calculation requires the use of judgement and estimates.

(b) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated.

(c) Impairment of goodwill

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The impairment test is performed by comparing carrying amount and the recoverable amounts of assets. The recoverable amount of goodwill is determined from the higher of fair value less costs of disposal and value in use calculation. If the recoverable amount declines below the carrying amount, impairment losses are recognised. The recoverable amount under value in use calculation is mainly calculated based on the discounted cash flow model. Certain assumptions are made for the discount rates, the growth rates and gross pay-ins from customers.

(d) Impairment of financial assets

The Group adopts a model for the recognition of impairment losses — the expected credit losses (ECL) model.

The model means that the Group will have to record a day 1 loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables).

The model also contains a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

(e) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

8. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(f) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required for calculation of current income taxes. When the final income tax amount is different from initial estimation, such difference will impact on current and deferred tax in the current fiscal year.

9. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are denominated in Hong Kong dollars ("HK$") and United States dollars ("USD").

The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 March 2016, if the JPY had weakened or strengthened 10% against the HK$ with all other variables held constant, consolidated profit after tax for the year would have been ¥21 million (2015: ¥76 million) higher or lower respectively, arising mainly as a result of the foreign exchange gain or loss on bank and cash balances denominated in HK$.

At 31 March 2016, if the JPY had weakened or strengthened 10% against the USD with all other variables held constant, consolidated profit after tax for the year would have been ¥77 million (2015: ¥197 million) higher or lower respectively, arising mainly as a result of the foreign exchange gain or loss on bank and cash balances denominated in USD.

9. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) ***Market risk*** *(Continued)*

(ii) Price risk

The Group's financial assets, listed equity securities are measured at fair value at the end of each reporting period and are exposed to equity security price risk. The Group periodically reviews the fair values of these investments as well as the financial condition of investees.

The table below summarises the impact of increases/decreases of the two equity indexes on the net profit for the year and on the consolidated other comprehensive income. The analysis is based on the assumption that the equity indexes had increased/decreased by 5% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index.

Impact on net profit	**2016**	2015
	¥ million	¥ million
Hang Seng Index		
5%	**–**	122
(5%)	**–**	(122)
Tokyo Price Index		
5%	**–**	–
(5%)	**–**	–

Impact on other comprehensive income	**2016**	2015
	¥ million	¥ million
Hang Seng Index		
5%	**240**	357
(5%)	**(240)**	(357)
Tokyo Price Index		
5%	**17**	22
(5%)	**(17)**	(22)

The consolidated profit after tax for the year and the consolidated other comprehensive income would increase/decrease as a result of change in fair value on equity securities.

9. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) ***Market risk*** *(Continued)*

(iii) Interest rate risk

The Group's exposure to interest-rate risk arises mainly from its bank deposits and borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 March 2016, it is estimated that a general increase/(decrease) of 25 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit after tax for the year as follows:

Increase/(decrease) in interest rate	**2016** **¥ million**	2015 ¥ million
25 basis points	**(28)**	(15)
(25) basis points	**28**	15

The sensitivity analysis above indicates the impact on the Group's profit for the year that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates.

(b) ***Credit risk***

The carrying amount of the bank and cash balance, pledged bank deposits, trade and other receivables and derivative financial instruments included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related companies are closely monitored by the directors.

In order to minimise credit risk, management have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on bank and cash balances and derivative financial instruments are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

9. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) ***Credit risk*** *(Continued)*

The Group considers the provability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- External credit rating (as far as available)
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- Actual or expected significant changes in the operating results of the borrower
- Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within a reasonable period of time when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Group's credit terms generally range from 1 to 30 days for those trade receivable.

The gross carrying amount of trade receivable is 459 million yen as at 31 March 2016 (2015: 486 million yen).

The Group's ageing analysis of trade receivables, based on invoice date, is as follows:

	2016 **¥ million**	2015 ¥ million
1 to 30 days	**432**	437
31 days to 60 days	**23**	22
Over 60 days	**4**	27
	459	486

There is no significant past due balance nor loss allowance provision recognised for trade receivables as at 31 March 2016 (2015: Nil).

Notes **to the Consolidated Financial Statements**

FOR THE YEAR ENDED 31 MARCH 2016

9. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor its current and expected liquidity requirements, its compliance with lending covenants and its relationship with its bankers to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Maturity Analysis — undiscounted cash outflows				
	Less than 1 year ¥ million	**Between 1 and 2 years ¥ million**	**Between 2 and 5 years ¥ million**	**Over 5 years ¥ million**	**Total ¥ million**
At 31 March 2016					
Trade and other payables	**17,786**	**–**	**–**	**–**	**17,786**
Other current liabilities	**6,369**	**–**	**–**	**–**	**6,369**
Borrowings	**2,371**	**3,871**	**11,224**	**3,646**	**21,112**
Finance lease payables	**89**	**43**	**88**	**–**	**220**
Other non-current liabilities	**–**	**596**	**537**	**552**	**1,685**
	26,615	**4,510**	**11,849**	**4,198**	**47,172**

	Maturity Analysis — undiscounted cash outflows				
	Less than 1 year ¥ million	Between 1 and 2 years ¥ million	Between 2 and 5 years ¥ million	Over 5 years ¥ million	Total ¥ million
At 31 March 2015					
Trade and other payables	20,468	–	–	–	20,468
Other current liabilities	5,169	–	–	–	5,169
Borrowings	3,160	160	5,827	3,600	12,747
Finance lease payables	260	52	16	–	328
Other non-current liabilities	–	511	119	372	1,002
	29,057	723	5,962	3,972	39,714

10. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The overall strategy remained unchanged during the year.

The capital structure of the Group consists of debt and equity attributable to owners of the Company, comprising share capital, capital reserve and retained earnings.

The management reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through arrangement of borrowings, payment of dividends, repurchase and cancellation of shares and new shares issued.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange, it has to have a public float of at least 25% of the shares. However, the Group have applied a wavier under Rule 8.08(1)(d) of the Listing Rules in which the Stock Exchange accepted a lower public float percentage of approximately 20.9% of the Group total issued share capital. Based on the information publicly available to the Company and to the best of the Board's knowledge, the Company has maintained the percentage of public float as accepted by the Stock Exchange during the period from 1 April 2015 to 31 March 2016.

The Group will consider cash and cash equivalents, borrowings and equity attributable to owners of the Company. The amount of liability, cash and cash equivalents and equity at 31 March 2016 and 2015 are as follows.

	2016 **¥ million**	2015 ¥ million
Total liability	**56,565**	45,883
Less: cash and cash equivalents	**(28,134)**	(29,239)
Net liability	**28,431**	16,644
Total liability and total equity	**189,184**	180,936

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

		At 31 March 2016		At 31 March 2015	
		¥ million		¥ million	
	Notes	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Financial assets measured at FVTOCI	26	6,479	6,479	–	–
Available-for-sale financial assets (*)	27	–	–	8,807	8,807
Financial assets measured at FVTPL (under IAS39) (*)	28	–	–	2,925	2,925
Financial assets measured at amortized cost		10	10	–	–
Held-to-maturity investment		–	–	10	10
Loan and receivables (including cash and cash equivalents)		30,353	30,353	31,247	31,247
Rental deposits		6,882	7,517	5,510	6,019
Total		43,724	44,359	48,499	49,008
Financial liabilities					
Financial liabilities measured at amortized cost		9,532	9,532	11,100	11,100
Borrowings	35	20,763	20,763	12,320	12,320
Finance lease payables	36	212	212	320	320
Total		30,507	30,507	23,740	23,740

Income, expenses and gain and losses recognised in the statement of profit or loss for the financial instruments:

Financial assets	Notes	2016 ¥ million	2015 ¥ million
Dividends from equity investments held at FVTOCI			
Related to investments held at the end of the reporting period	17	161	–
Dividends from equity investments held at FVTPL	17	–	41
Dividends from equity investments held at AFS(*)	17	–	24
Total		161	65

11. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(*) Accounting policies applied prior to 1 April 2015:

Available-for-sale financial assets:

Available-for-sale financial assets are initially measured at fair value, plus directly attributable transaction costs and subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets measured at fair value through profit or loss (under IAS39):

Financial assets measured at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

Financial assets measured at fair value through profit or loss are subsequently measured at fair value and gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss.

(a) Fair Value measurement

(i) Financial assets measured at fair value through other comprehensive income and Available-for-sale financial assets

The fair values of listed investments are based on quoted bid prices at the end of the reporting period. If the market for a financial asset is not active and for unlisted financial assets, the Group establishes fair value by using reasonable valuation.

(ii) Financial assets measured at fair value through profit or loss

The fair values of listed investments are based on quoted bid prices at the end of the reporting period.

(iii) Financial assets measured at amortizes cost and Held-to-maturity investments

These financial assets are measured based on quoted bid prices at the end of the reporting period.

(iv) Receivables, and cash and cash equivalents

The fair values of the Group's financial assets, including trade and other receivables, and cash and cash equivalents approximate their carrying amounts due to their short-term maturities.

(v) Other financial liabilities

Other financial liabilities which include borrowings and lease obligations are subsequently measured, by each liabilities classified by period, at present value discounted by the interest rate which takes into account duration and credit risk. The carrying amounts of financial liabilities other than above approximate their fair values, hence they are settled in short term.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Fair Value estimation

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 on the measurement date.

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial assets and liabilities into the three levels prescribed under the accounting standards.

An explanation of each level at fair value hierarchy is as follows:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access on 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 fair value of financial instruments traded in active markets is based on quoted market prices on the date of the statement of financial position. 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 listed equity securities.

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. Other investments categorised as level 3 mainly consist of unlisted equity securities in inactive markets.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Recognised fair value measurements

Assets and liabilities that are measured at fair value on a recurring basis

At 31 March 2016

Description	Fair value measurements using: Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	Total ¥ million
Financial assets measured at FVTOCI				
Listed securities in Hong Kong	**4,804**	**–**	**–**	**4,804**
Listed securities in Japan	**514**	**–**	**–**	**514**
Others	**–**	**–**	**1,161**	**1,161**
Total	**5,318**	**–**	**1,161**	**6,479**

At 31 March 2015

Description	Fair value measurements using: Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	Total ¥ million
Financial assets measured at FVTPL (under IAS39)				
Listed securities in Hong Kong	2,925	–	–	2,925
Available-for-sale financial assets				
Listed securities in Hong Kong	7,132	–	–	7,132
Listed securities in Japan	647	–	–	647
Others	–	–	1,028	1,028
	7,779	–	1,028	8,807
Total	10,704	–	1,028	11,732

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There are no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial statements include:

- the use of quoted prices or dealer quotes for similar instruments.

- the fair values of the Group's financial assets, including trade and other receivables, and cash and cash equivalents approximate their carrying amounts due to their short-term maturities.

- the fair value of other financial liabilities which include borrowings and lease obligations are subsequently measured, by each liabilities classified by period, at present value discounted by the interest rate which takes into account duration and credit risk. The carrying amounts of financial liabilities other than above approximate their fair values, hence they are settled in short term.

- The fair value of the remaining financial instruments is determined based on income approach (i.e. using discounted future cash flow analysis).

All of the resulting fair value estimate are included in level 3.

(e) Fair value measurements using significant unobservable inputs (level 3)

Changes in level 3 for the period ended 31 March 2016:

	2016 ¥ million
Balance at beginning of the period	1,028
Gains (loss) in other comprehensive income	–
Gains (loss) in profit or loss	60
Purchases	0
Acquisition of subsidiaries	119
Sales/Redemptions	(46)
Net transfers in and/or (out) of level 3	–
Balance at end of the period	1,161

11. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(f) Valuation inputs and relationship to fair value

The information about the significant unobservable inputs used in 3 fair value measurements:

Level 3 fair value measurements

Description	Valuation technique	Inputs	Fair value at 31 Mar 2016 ¥million	Fair value at 31 Mar 2015 ¥million
Unlisted equity securities and others	Discount cash flow method	Discount rate	**1,161**	1,028

(g) Valuation process

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes. The financial controller reports directly to the Board of Directors for these fair value measurements.

Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 2 and level 3 fair value measurements, the Group engages external, independent and qualified valuers to determine the fair value of the Group's financial instruments.

(h) Assets and liabilities that are not measured at fair value in the consolidated statement of financial position but for which the fair value is disclosed

Following items are included within financial assets and liabilities which are not measured at fair value as of the reporting period. The fair value of these items are shown in the table below. Note that items with the carrying amounts which are reasonable approximation of fair values are not presented in the table.

At 31 March 2016

Description	Fair value measurements using: Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	Total ¥ million
Financial assets				
Rental deposits	**–**	**7,517**	**–**	**7,517**
Total	**–**	**7,517**	**–**	**7,517**

11. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(h) *Assets and liabilities that are not measured at fair value in the consolidated statement of financial position but for which the fair value is disclosed* *(Continued)*

At 31 March 2015

Description	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	Total ¥ million
	Fair value measurements using:			
Financial assets				
Rental deposits	–	6,019	–	6,019
Total	–	6,019	–	6,019

(i) *Financial assets at fair value through other comprehensive income*

(i) Equity investments at fair value through other comprehensive income comprise the following individual investments:

	2016 **¥ million**	2015 ¥ million
Non-current assets		
Macau Legend Development Limited *1 & 2	**2,653**	7,026
IGG Inc *1 & 3	**1,936**	2,925
Others	**1,890**	1,781
	6,479	11,732

*1 These are investments in listed equity securities.

*2 This investment was classified as available for sales in 2015, see note 5(a).

*3 This investment was classified as fair value at profit or loss in 2015, see note 5(a).

The Group elects to present the subsequent change in fair value of investments in equity instruments in other comprehensive income when those investments are held for the objective that is to expand the medium and long-term revenue through maintenance and reinforcement of relationships with investees.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(i) Financial assets at fair value through other comprehensive income (Continued)

(i) **Equity investments at fair value through other comprehensive income comprise the following individual investments:** *(Continued)*

Upon disposal of these equity investments, any balance within the other comprehensive income reserve for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

In the prior year, the company had designated equity investments as available-for-sale where management intend to hold them for the medium to long-term.

See note 5(a) for explanations regarding the change of accounting policy and the reclassification of certain equity investments from financial assets measured at fair value through profit and loss (FVTPL) and available-for-sale to financial assets at fair value through other comprehensive income and note 7(m) and (n) for the remaining accounting policies applicable for financial assets.

(ii) **Disposal of equity investments**

Since April 2015, the Group has sold its shares held in Imperial Pac and IGG as the result of reassessment of the Group's investment strategy. The share sold had a fair value of ¥470 million and the Group realised a gain of ¥212 million which is already included in other comprehensive income. This gain has been transferred to retained earnings.

12. BUSINESS COMBINATION

The Acquisition of the Entire Issued Share Capital of Yume Corporation

Pursuant to the acquisition agreement dated 24 September 2015 entered into between the Company and Yume Corporation, a company incorporated in Japan, on 1 November 2015, the Company completed the acquisition of 100% of the issued share capital of Yume Corporation by the Share Exchange.

The Company issued 38,805,336 Shares in total to the Yume Corporation's shareholders in exchange of their total numbers of shares in the Yume Corporation (the "Share Exchange").

The Share Exchange was executed through a simplified share exchange procedure (kan'i kabushiki-koukan) pursuant to the provision of Article 796, paragraph 2 of the Companies Act.

(a) Principal business of the acquiree

Yume Corporation is engaged in the business of pachinko halls operation in Japan.

(b) The purpose of the acquisition

The purpose of the acquisition is to expand the Group's existing scale of operation and to enlarge the Group's market share.

12. BUSINESS COMBINATION *(Continued)*

(c) The fair values of the identifiable assets and liabilities

The fair values of the identifiable assets and liabilities of Yume Corporation acquired as at their dates of acquisition, are as follows:

Consideration:		¥ million
At 1 November 2015		
Equity instruments (38,805,336 ordinary shares)		
Total consideration transferred		5,775
Recognised amounts of identifiable assets acquired and liabilities assumed		
Property, plant and equipment	10,958	
Investment properties	422	
Intangible assets	142	
Inventories	284	
Trade receivables	7	
Other assets	2,559	
Cash and cash equivalents	1,756	
Deferred tax assets	1,820	17,948
Trade and other payables	2,095	
Borrowings	9,491	
Retirement benefit obligations	242	
Provisions	951	
Other liabilities	2,071	14,850
Total identifiable net assets		3,098
Goodwill		2,677
Consideration for acquisition:		5,775
Increase of capital reserve by Share Exchange		5,775

The goodwill arising on the acquisition of Yume Corporation is attributable to the anticipated profitability of its operations of pachinko halls and the anticipated future operating synergies from the combination of the operations. It will not be deductible for tax purpose.

12. BUSINESS COMBINATION *(Continued)*

(d) Inflow of cash arising on acquisition

Cash and cash equivalents owned by Yume Corporation was ¥1,756 million. There was no outflow of cash to acquire Yume Corporation since the business combination was executed by the Share Exchange.

(e) Acquisition-related costs

Acquisition-related costs of ¥23 million that were not directly attributable to the issue of shares are incurred in general and administrative expenses in profit or loss.

(f) Amounts of revenue and profit of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period

This acquisition increased the Group's consolidated revenue by ¥5,704 million and decreased the consolidated profit by ¥20 million respectively for the year ended 31 March 2016.

(g) Amounts of revenue and profit of the combined entity for the year ended 31 March 2016 as though the acquisition date had been as of the beginning of the annual reporting period

Amounts of consolidated revenue and profit of the Group for the year ended 31 March 2016 as though the acquisition date had been as of the beginning of the annual reporting period are ¥164,277 million and ¥9,930 million, respectively.

13. 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 the operations of pachinko halls and those related services are 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.

13. SEGMENT INFORMATION *(Continued)*

REVENUE

	2016	2015
	¥ million	¥ million
Gross pay-ins	**844,885**	826,072
Less: Gross payouts	**(688,974)**	(671,516)
Revenue	**155,911**	154,556

14. HALL OPERATING EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

(a) Hall operating expenses

	2016	2015
	¥ million	¥ million
Advertising expenses	**4,817**	4,915
Cleaning and ancillary services	**3,707**	3,406
Depreciation charges expenses	**10,453**	10,040
G-prize expenses	**2,401**	3,197
Hall staff costs	**47,372**	45,090
Pachinko and pachislot machine expenses	**35,832**	36,607
Rental expenses	**12,048**	10,974
Repair and maintenance expenses	**3,676**	3,384
Utilities expenses	**6,093**	5,836
Others	**11,927**	11,210
	138,326	134,659

14. HALL OPERATING EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES *(Continued)*

(b) General and administrative expenses

	2016	2015
	¥ million	¥ million
Salaries, bonus and allowances	**3,219**	3,141
Audit fee	**113**	86
Others	**2,466**	2,229
	5,798	5,456

15. STAFF COSTS AND DIRECTOR'S EMOLUMENTS

	2016	2015
	¥ million	¥ million
Salaries, bonus and allowances	**54,281**	51,771
Expenses recognised in respect of defined benefit retirement plans	**20**	7
Contribution to defined contribution retirement plans	**839**	803
	55,140	52,581

16. OTHER INCOME AND OTHER EXPENSES

(a) Other income

	2016	2015
	¥ million	¥ million
Commission from vending machines and in-store sales	**4,240**	4,053
Income from forfeiture of customer's membership cards	**254**	265
Income from catering services	**514**	407
Sales from property held for sale	**858**	–
Net gains on disposals of used machines	**423**	378
Rental income	**694**	543
Others	**1,201**	1,204
	8,184	6,850

16. OTHER INCOME AND OTHER EXPENSES *(Continued)*

(b) Other operating expenses

	2016	2015
	¥ million	¥ million
Disposal cost of non-financial assets	**321**	181
Impairment loss of non-financial assets	**189**	878
Cost of sales of property held for sale	**440**	–
Rental cost	**322**	205
Others	**533**	683
	1,805	1,947

17. FINANCE INCOME

	2016	2015
	¥ million	¥ million
Bank interest income	**16**	54
Dividend income	**161**	65
Foreign exchange gains, net	**–**	1,782
Others	**134**	250
	311	2,151

18. FINANCE EXPENSES

	2016	2015
	¥ million	¥ million
Interest expenses	**299**	68
Amortisation of syndicated loan charges	**322**	370
Foreign exchange loss, net	**368**	–
Loss from changes in fair value of financial assets measured at fair value through profit or loss	**–**	1,258
Others	**85**	281
	1,074	1,977

19. INCOME TAXES

	2016 ¥ million	2015 ¥ million
Current taxes — Japan Profits Tax		
Provision for the year	**5,197**	7,023
Under-provision in prior years	**9**	11
	5,206	7,034
Current taxes — Overseas		
Provision for the year	**28**	13
Deferred taxes (Note 39)		
Provision for the year	**1,630**	1,212
Income tax expense	**6,864**	8,259

As a result of the 2016 Tax Reform passed on 29 March 2016, applicable effective tax rate used to measure the deferred tax assets/liabilities at the period end was reduced from 33% to 32% for the year ending 31 March 2017 and 2018, and from 33% to 31% for the year ending 31 March 2019 and after.

The change of corporate tax rate does not have a material impact to the Company's financial statements.

Hong Kong profits tax included in overseas taxation above has been provided at a rate of approximately 16% on the estimated assessable profit for the year ended 31 March 2016.

19. INCOME TAXES *(Continued)*

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Japan Profits Tax rate is as follows:

	2016 **¥ million**	2015 ¥ million
Profit before tax	**17,403**	19,518
Japan Profits Tax rate	**33%**	36%
Tax at the domestic income tax rate	**5,743**	7,026
Tax effect of income that is not taxable	**(281)**	(206)
Tax effect of expenses that are not deductible	**674**	498
Tax effect of temporary differences not recognised	**(4)**	70
Tax losses not recognised	**305**	197
Under-provision in prior years	**9**	11
Effect of different tax rates of subsidiaries	**(29)**	(187)
Effect of change in tax rate	**251**	674
Others	**196**	176
Income tax expense	**6,864**	8,259

20. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals in the Group during the year included two (2015: one) directors whose emoluments are reflected in the analysis presented in Note 52.

The emoluments of the remaining three (2015: four) individuals are set out below:

	2016 **¥ million**	2015 ¥ million
Salaries and allowances	**69**	90
Discretionary bonus	**8**	22
Retirement benefit contributions scheme	**–**	–
	77	112

20. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The number of highest paid individuals whose remuneration fell within the following bands is as follows:

	2016 Number of individuals	2015 Number of individuals
HK$1,500,001 to HK$2,000,000 (equivalent to ¥21,795,015 to ¥29,060,000) (2015: equivalent to¥23,265,016 to ¥31,020,000)	**3**	4
HK$2,000,001 to HK$2,500,000 (equivalent to ¥29,060,015 to ¥36,325,000) (2015: equivalent to ¥31,020,016 to ¥38,775,000)	**–**	–
HK$2,500,001 to HK$3,000,000 (equivalent to ¥36,325,015 to ¥43,590,000) (2015: equivalent to ¥38,775,016 to ¥46,530,000)	**–**	–
HK$3,000,001 to HK$3,500,000 (equivalent to ¥43,590,015 to ¥50,855,000) (2015: equivalent to¥46,530,016 to ¥54,285,000)	**–**	–

No remunerations were paid by the Group to any of the directors or chief executive officer or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 March 2016 (2015: Nil).

21. DIVIDENDS

	2016		2015	
Dividends declared and paid/payable to its shareholders by:	**Dividend per share** **¥**	**Total dividends** **¥ million**	Dividend per share ¥	Total dividends ¥ million
— Interim	**7.00**	**5,465**	7.00	5,200
— Final	**6.00**	**4,596**	7.00	5,200
		10,061		10,400

On 26 May 2016, the Board of Directors declared a final dividend of ¥6.00 per ordinary share of the Company, which is payable on 24 June 2016 to the shareholders of the Company.

The amount of proposed final dividend for the year ended 31 March 2016 is based on 765,985,896 shares in issue as at 26 May 2016 when the consolidated financial statements was approved by the Board of directors.

If the Group owns any treasury shares as at 2 June 2016 when is the dividend record date, the amount of proposed final dividend represents the number of shares in issue, which exclude the number of treasury shares owned by the Group as of the date, multiplied by the amount of dividend per share.

22. EARNINGS PER SHARE

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

	2016	2015
	¥ million	¥ million
Earnings for the purpose of calculating basic earnings per share	**10,544**	11,303
Weighted average number of ordinary shares	**757,341,412**	742,850,360
Basic earnings per share (¥)	**13.9**	15.2

Diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares in existence during the years ended 31 March 2016 and 2015.

23. PROPERTY, PLANT AND EQUIPMENT

	Freehold land ¥ million	Buildings including leasehold improvements ¥ million	Tools and equipment ¥ million	Motor vehicles ¥ million	Construction in progress ¥ million	Total ¥ million
Cost						
At 1 April 2014	28,962	127,101	80,480	139	451	237,133
Additions	–	–	–	–	20,828	20,828
Transfer	385	7,245	8,054	54	(19,803)	(4,065)
Disposals/write off	–	(156)	(1,168)	(27)	(44)	(1,395)
Translation	4	9	26	2	–	41
At 31 March 2015 and 1 April 2015	29,351	134,199	87,392	168	1,432	252,542
Acquisition of subsidiaries (note 12)	3,372	6,052	1,534	0	–	10,958
Additions	–	311	369	2	11,191	11,873
Transfer	678	4,969	5,553	10	(11,210)	–
Transfer to investment property (note 24)	(813)	(1,167)	–	–	–	(1,980)
Disposals/write off	(202)	(981)	(16,872)	(1)	–	(18,056)
Translation	(4)	(12)	(48)	(8)	–	(72)
At 31 March 2016	32,382	143,371	77,928	171	1,413	255,265
Accumulated depreciation and impairment						
At 1 April 2014	2,072	77,667	62,732	57	–	142,528
Charge for the year	–	5,347	4,967	26	–	10,340
Impairment loss	479	247	146	–	–	872
Disposals/write off	–	(102)	(1,031)	(35)	–	(1,168)
Translation	–	1	8	–	–	9
At 31 March 2015 and 1 April 2015	2,551	83,160	66,822	48	–	152,581
Charge for the year	–	5,847	5,716	34	–	11,597
Impairment loss	76	55	58	–	–	189
Transfer to investment property (note 24)	–	(1,042)	–	–	–	(1,042)
Disposal/write off	–	(860)	(16,702)	(1)	–	(17,563)
Translation	–	(3)	(23)	(3)	–	(29)
At 31 March 2016	2,627	87,157	55,871	78	–	145,733
Carrying amount						
At 31 March 2016	29,755	56,214	22,057	93	1,413	109,532
At 31 March 2015	26,800	51,039	20,570	120	1,432	99,961

23. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The Group's freehold lands are analysed as follows:

	2016 **¥ million**	2015 ¥ million
Freehold		
Japan	**29,719**	26,760
South Korea	**36**	40
	29,755	26,800

(b) At 31 March 2016, the carrying amount of tools and equipment and motor vehicles held by the Group under finance leases amounted to ¥1,064 million (2015: ¥1,257 million).

(c) At 31 March 2016, the carrying amount of property, plant and equipment pledged as security for the Group's borrowings amounted to ¥6,021 million (2015: ¥2,913 million).

(d) The Group reviewed carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered impairment losses.

In order to determine whether an indicator of impairment exists, property, plant, and equipment are generally grouped by the lowest level that generates independent cash flow. The Group considered an individual pachinko hall as a cash-generating unit ("CGU") based on business activities. The recoverable amount of the CGU is determined from the higher of fair value less costs of disposal and value in use.

The key assumptions for the value in use calculations are those regarding the remaining useful lives of the significant properties of CGU, discount rates, growth rates and gross pay-ins from customers during the year.

The remaining useful lives of the significant properties of CGU is the period for which value in use are calculated.

The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU.

The growth rates are estimated zero at 31 March 2016 and are estimated based on population rate of the geographical area in which the hall operates at 31 March 2015, respectively.

Gross pay-ins from customers are based on past practices and expectations on market development. Whereas the fair value was valued by Cushman & Wakefield K.K. ("CW"), an independent firm of real estate appraiser.

The rate used to discount the free cash flow projections from the CGU's operating result is as follows:

	2016 **%**	2015 %
Discount rate	**8.0**	7.0

Impairment loss recognised for the year ended 31 March 2016 amounted to ¥189 million (2015: ¥872 million).

24. INVESTMENT PROPERTIES

The schedule of the carrying value amount of "Investment property" for each fiscal year is as follows:

	2016 ¥ million	2015 ¥ million
Non-current asset — at fair value		
At beginning of year	**740**	745
Acquisition of subsidiaries (note 12)	**422**	–
Net gain/(loss) from Fair value adjustment	**79**	(5)
Transfer from owner-occupied property	**938**	–
At end of year	**2,179**	740

The investment properties at their carrying amounts are analysed as follows:

	2016 ¥ million	2015 ¥ million
In Japan		
Freehold	**1,658**	380
Medium-term lease	**521**	360
	2,179	740

Amounts recognised in profit or loss for investment properties:

	2016 ¥ million	2015 ¥ million
Amounts recognised in profit or loss for investment properties are as follows:		
Rental income	**694**	543
Direct operating expenses from property	**(322)**	(205)
Fair value gain/(loss) recognised in other income	**79**	(5)
Total	**451**	333

Notes **to the Consolidated Financial Statements**

FOR THE YEAR ENDED 31 MARCH 2016

24. INVESTMENT PROPERTIES *(Continued)*

(a) Fair value measurements

Investment properties, principally freehold commercial building, are held for long-term rental yields and are not occupied by the Group. They are carried at fair value. Changes in fair values are presented in profit or loss as part of other income.

(b) Fair value estimation

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its non-financial assets into the three levels prescribed under the accounting standards. An explanation of each level at fair value hierarchy is provided in note 11.

(c) Recognised fair value measurements

Based on the fair value determined by the external, independent and qualified valuer, CW, the Group performed valuation of its investment properties at 31 March 2016 and 31 March 2015 as follows:

At 31 March 2016

	Fair value measurements using:			
Description	**Level 1** **¥ million**	**Level 2** **¥ million**	**Level 3** **¥ million**	**Total** **¥ million**
Investment properties				
Freehold	**–**	**–**	**1,658**	**1,658**
Medium-term lease	**–**	**–**	**521**	**521**
Total recurring fair value measurements	**–**	**–**	**2,179**	**2,179**

At 31 March 2015

	Fair value measurements using:			
Description	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	Total ¥ million
Investment properties				
Freehold	–	–	380	380
Medium-term lease	–	–	360	360
Total recurring fair value measurements	–	–	740	740

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There are no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

24. INVESTMENT PROPERTIES *(Continued)*

(d) Valuation techniques used to determine level 2 and level 3 fair values

At the end of each reporting period, the financial controller updates his assessment of the fair value of each property, based on the most recent fair value determined by the independent and qualified valuer, CW.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the financial controller considers information from a variety of sources including:

- Current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- Discount cash flow projections based on reliable estimates of future cash flows
- Capitalised income projections based upon a property's estimated net market income, and a capitalization rate derived from an analysis of market evidence.

All resulting fair value estimate for properties are included in level 3.

(e) Fair value measurements using significant unobservable inputs (level 3)

The changes in level 3 items for the period ended 31 March 2015 and 2016 for recurring fair value measurements:

	¥ million
At 1 April 2014	745
Net loss from Fair value adjustment	(5)
At 31 March 2015 and 1 April 2015	740
Acquisition of subsidiaries (note 12)	422
Transfer from owner-occupied property	938
Net gain from Fair value adjustment	79
At 31 March 2016	2,179

* Unrealised gains or (losses) recognised in profit or loss attributable to assets held at the end of the reporting period (included in gains/(losses) recognised in other income above).

2016	79
2015	(5)

Notes **to the Consolidated Financial Statements**

FOR THE YEAR ENDED 31 MARCH 2016

24. INVESTMENT PROPERTIES *(Continued)*

(f) Valuation inputs and relationships to fair value

The qualitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs**	**Fair value 2016**	**Fair value 2015**	**Relationship of unobservable input to fair value when the unobservable input increases**
				¥million	¥million	
Investment properties	Income approach	Discount rate	6.5%-12.0%			Decrease
		Rental period	6.5-18.6years			Increase
		Capitalisation rate	12.0%			Decrease
		Market rent	¥2,671-¥14,216 per tsubo	**806**	665	Increase
	Sales comparison approach	Transaction price for similar land	¥21,775 -¥80,879 per square meter			Increase
		Adjustment for attributes of the subject (*)	65.0%-107.0%	**170**	75	Increase
	Cost approach	Replacement Cost-Lands	¥21,000-¥108,000 per square meter			Increase
		Replacement Cost-Buildings	¥165,000-¥178,000 per square meter			Increase
		Accumulated depreciation rate	30.0%-100.0%	**1,203**	–	Decrease
				2,179	740	

(*) Including but not limited to scale, shape, size and possibility to get the development permission.

24. INVESTMENT PROPERTIES *(Continued)*

(g) Valuation process

An explanations of valuation process is provided in note 11.

25. INTANGIBLE ASSETS

The following is a movement schedule of goodwill, other intangible assets for the costs and accumulated amortisation and impairment losses.

	Goodwill ¥ million	Trademarks ¥ million	Computer software ¥ million	Total ¥ million
Cost				
At 1 April 2014	–	23	4,356	4,379
Additions	–	1	219	220
Write off	–	–	(26)	(26)
At 31 March 2015 and 1 April 2015	–	24	4,549	4,573
Additions	–	–	575	575
Acquisition of subsidiaries (note 12)	2,677	13	129	2,819
Write off	–	–	(12)	(12)
At 31 March 2016	2,677	37	5,241	7,955
Accumulated amortisation and impairment				
At 1 April 2014	–	9	2,962	2,971
Amortisation for the year	–	2	582	584
Write off	–	–	(12)	(12)
Impairment loss	–	–	1	1
At 31 March 2015 and 1 April 2015	–	11	3,533	3,544
Amortisation for the year	–	4	416	420
At 31 March 2016	–	15	3,949	3,964
Net book value				
At 31 March 2016	2,677	22	1,292	3,991
At 31 March 2015	–	13	1,016	1,029

25. INTANGIBLE ASSETS *(Continued)*

(a) Impairment test for goodwill

Goodwill is monitored by management at the level of individual pachinko halls that are profitable and expected to benefit from the synergies of the business combination at the date of acquisition of the business.

Goodwill recognised during the year ending 31 March 2016 is related to the acquisition of Yume Corporation, and the carrying amounts are all allocated to the group of pachinko halls that are expected to benefit from the synergies of this business combination.

(b) Significant estimate: key assumptions used for value-in-use calculations

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations, which require the use of assumptions. The calculations use discounted cash flow projections based on business plans approved by management for the following consolidated financial year. The Group prepares business plans reflecting the management's assessment of the industry future trend and the past practices; the business plans are based on both externally and internally available information. An appropriate period of future cash flow projections is set for the business of each cash generating unit.

Cash flows beyond the period covered by the most recent business plans are extrapolated using the estimated revenue growth rates stated below. These revenue growth rates are consistent with forecasts included in industry reports and are not expected to exceed long-term average growth rate of the industry.

When the recoverable amount of the goodwill specifically associated with a cash-generating unit is lower than the carrying amount of such goodwill, an impairment loss is recognised and the goodwill is written down to the recoverable amount.

The following table sets out the key assumptions for the group of units; CGU that have significant goodwill allocated:

For the year ending 31 March, 2016	Group of individual pachinko halls
Revenue (% annual growth rate) (*1)	0%
Operating costs (unit: million yen)	¥253 million – ¥599 million
Pre-tax discount rate	8%

(*1) Revenue growth rate is based on population rate of the geographical area in which the hall operates

25. INTANGIBLE ASSETS *(Continued)*

(b) ***Significant estimate: key assumptions used for value-in-use calculations*** *(Continued)*

Management has determined the value assigned to each of the above key assumptions as follows:

Assumption	Approach used to determining values
Revenue (% annual growth rate)	The average annual revenue growth rate is based on past performance and management's expectations for the future and used to extrapolate the future cash flows. The rates are consistent with forecasts included in industry reports and are not expected to exceed long-term average growth rate of the industry.
Operating costs	Management forecasts operating costs of the CGUs based on the current structure of the business, adjusting for inflationary increase but not reflecting any future restructuring or cost saving measures. The amount disclosed above are the average operating cost for the forecasted period.
Pre-tax discount rate	Reflect specific risks relating to each CGU.

(c) ***Significant estimate — impairment charge***

There is no impairment losses recognised during the year ended March 31, 2016.

(d) ***Significant estimate — impact of possible changes in key assumptions***

Goodwill for which impairment has not occurred is at risk of impairment. If the major assumptions behind the test of impairment change, the unit's carrying amount might exceed its recoverable amount.

The total recoverable amount of individual pachinko halls (CGUs) that are expected to benefit from the synergies from the acquisition of Yume Corporation is estimated at ¥12,271million at 31 March 2016. This exceeds the total carrying amount of the CGUs, which goodwill has been allocated to, at 31 March 2016 by ¥6,589 million.

In the CGU, which has the minimum excess amount of the recoverable amount to the carrying amount, the recoverable amount of this CGU would equal its carrying amount if the pre-tax discount rate increases by 4 percentage points.

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of this CGU to exceed its recoverable amount.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

26. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2016	2015
	¥ million	¥ million
Equity securities at fair value, listed in Hong Kong	**4,804**	–
Equity securities at fair value, listed in Japan	**514**	–
Others	**1,161**	–
	6,479	–

27. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
	¥ million	¥ million
Equity securities at fair value, listed in Hong Kong	**–**	7,132
Equity securities at fair value, listed in Japan	**–**	647
Others	**–**	1,028
	–	8,807

Listed and unlisted securities classified as Available-for-sales financial assets are measured at fair value.

28. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (UNDER IAS39)

	2016	2015
	¥ million	¥ million
Equity securities at fair value, listed in Hong Kong	**–**	2,925

29. OTHER NON-CURRENT ASSETS

	2016 ¥ million	2015 ¥ million
Rental prepayment	**4,104**	4,096
Rental deposits	**6,723**	5,510
Prepayment for lender commitment fee	**200**	271
Construction assistance fund receivables	**496**	398
Fire insurance premiums	**390**	–
Others	**621**	447
	12,534	10,722

30. INVENTORIES

	2016 ¥ million	2015 ¥ million
Supplies	**1,056**	1,744
Properties held for sale and under development for sale	**2,088**	2,155
Others	**436**	594
Total	**3,580**	4,493

31. PRIZES IN OPERATION OF PACHINKO HALLS

	2016 ¥ million	2015 ¥ million
G-prize	**3,836**	3,354
General prize	**1,080**	938
Total	**4,916**	4,292

32. OTHER CURRENT ASSETS

	2016 ¥ million	2015 ¥ million
Rental prepayment	**2,028**	1,872
Withholding tax receivables	**2,235**	3,901
Prepayment for lender commitment fee	**167**	234
Finance lease receivables	**276**	336
Deposit	**337**	29
Others	**1,108**	916
	6,151	7,288

33. CASH AND CASH EQUIVALENTS

	2016 ¥ million	2015 ¥ million
Cash on hand	**5,550**	4,787
Cash at bank	**22,584**	24,452
Cash and cash equivalents	**28,134**	29,239

As at 31 March 2016, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to ¥21 million (2015: ¥37 million). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2016 ¥ million	2015 ¥ million
JPY	**26,335**	24,923
HKD	**480**	1,382
USD	**1,063**	2,840
Others	**256**	94
	28,134	29,239

34. TRADE AND OTHER PAYABLES

	2016	2015
	¥ million	¥ million
Trade payables	**1,432**	1,287
Halls construction and system payables	**2,438**	4,000
Other tax expenses	**2,492**	3,801
Pachinko and pachinslot machine payables	**2,340**	2,922
Accrued staff costs	**8,102**	7,734
Others	**982**	724
	17,786	20,468

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

	2016	2015
	¥ million	¥ million
1 to 30 days	**1,372**	1,211
31 days to 60 days	**11**	60
Over 60 days	**49**	16
	1,432	1,287

35. BORROWINGS

	2016	2015
	¥ million	¥ million
Bank loans	**20,763**	12,320

The borrowings are repayable as follows:

	2016	2015
	¥ million	¥ million
On demand or within one year	**2,369**	3,160
In the second year	**3,839**	159
In the third to fifth years, inclusive	**11,013**	5,622
After five years	**3,542**	3,379
	20,763	12,320
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(2,369)**	(3,160)
Amount due for settlement after 12 months	**18,394**	9,160

Notes:

(i) The weighted average interest rates per annum as at 31 March 2016 and 2015 were set out as follows:

	2016	2015
	%	%
Bank loans	**0.7**	0.6

(ii) The borrowings as at 31 March 2016 and 2015 were secured by the following:

	2016	2015
	¥ million	¥ million
Property, plant and equipment	**6,021**	2,913

(iii) All carrying amount of the borrowings at 31 March 2016 and 31 March 2015 is arranged at floating interest rate and exposes the Group to cash flow interest rate risk.

36. FINANCE LEASES PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
	¥ million	¥ million	**¥ million**	¥ million
Within one year	**89**	260	**86**	254
In the second to fifth years, inclusive	**131**	68	**126**	66
	220	328	**212**	320
Less: Future finance charges	**(8)**	(8)	**–**	–
Present value of lease obligations	**212**	320	**212**	320
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(86)**	(254)
Amount due for settlement after 12 months			**126**	66

It is the Group's policy to lease certain of its tools and equipment and motor vehicles under finance leases. The average lease term is 5 years (2015: 5 years). The weighted average borrowing rate per annum at 31 March 2016 was 2.4% (2015: 3.6%). All finance lease payables are arranged at fixed rates thus expose the Group to fair value interest rate risk and no arrangements have been entered into for contingent rental payments.

37. OTHER CURRENT LIABILITIES

	2016	2015
	¥ million	¥ million
Unutilised balls and tokens and unused pre-paid IC cards	**5,093**	4,103
Others	**1,276**	1,066
	6,369	5,169

38. RETIREMENT BENEFIT OBLIGATIONS

The Group operates various post-employment schemes, including both defined contribution retirement plans and defined benefit retirement plans. Within the Group, Yume Corporation, which became wholly owned subsidiaries on 1 November 2015, has defined benefit retirement plan for eligible employees.

For the entity located in Hong Kong, the Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,250 per employee and vest fully with employees when contributed into the MPF Scheme.

(a) The amounts recognised in the statement of financial position and the movements in the net defined benefit obligation over the year are as follows:

	Present value of obligation ¥ million	Fair value of plan assets ¥ million	Total ¥ million
1 November 2015	502	(260)	242
Current service cost	19	–	19
Interest expense/(income)	1	(1)	0
Total amount recognised in profit or loss	20	(1)	19
Remeasurements			
Return on plan assets, excluding amounts included in interest expense/ (income)	–	5	5
(Gain)/loss from change in financial assumptions	(0)	–	(0)
Other	4	–	4
Total amount recognised in other comprehensive income	4	5	9
Contributions:			
Employers	–	(16)	(16)
Benefit payments	(15)	6	(9)
Other	(2)	–	(2)
31 March 2016	509	(266)	243

(b) The defined benefit retirement plans of the Group are measured by projected unit credit method with reference to the valuation performed by SUMITOMO LIFE INSURANCE COMPANY, an independent qualified professional valuer.

38. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(c) The principal actuarial assumptions adopted at each of the reporting period are as follows:

	2016 %
Discount rate	0.366

The Group's sensitivity analysis for a significant actuarial assumption as of the end of the reporting period based on reasonably possible change of the relevant actuarial assumption is as follow:

	Increase ¥ million	Decrease ¥ million
Discount rate (0.25% movement)	(16)	12

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to the significant actuarial assumption, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the consolidated statement of financial position.

(d) The major categories of plan assets are as follows:

	31 March 2016			
	Quoted ¥ million	Un-quoted ¥ million	Total ¥ million	in%
Equity instruments				14.8%
Information technology	2	–	2	
Energy	1	–	1	
Manufacturing	10	–	10	
Other	27	–	27	
Debt Instruments				85.2%
Government	45	–	45	
Corporate bonds (Investment grade)	180	–	180	
Cash and cash equivalents	1	–	1	
Total	266	–	266	100.0%

(e) Risk exposure

Management believes that general risks, such as investment, changes in bond yields and life expectancy risks in the defined benefit plan are not significant.

Notes **to the Consolidated Financial Statements**

FOR THE YEAR ENDED 31 MARCH 2016

39. DEFERRED TAX

	Property, plant and equipment ¥ million	Staff costs ¥ million	Unutilised balls and tokens ¥ million	Pre-paid rent ¥ million	Pachinko and pachislot machines ¥ million	Investment properties ¥ million	Others ¥ million	Total ¥ million
At 1 April 2014	(668)	2,727	210	1,287	6,941	35	1,462	11,994
Credit/(charge) to equity for the year	–	(1)	–	–	–	–	(2)	(3)
Credit/(charge) to profit or loss for the year (Note 18)								
— origination and reversal of temporary differences	597	(459)	107	133	(138)	39	(810)	(531)
— effect of change in tax rate	(32)	(142)	(18)	(20)	(427)	(19)	(23)	(681)
At 31 March 2015 and 1 April 2015	**(103)**	**2,125**	**299**	**1,400**	**6,376**	**55**	**627**	**10,779**
Acquisition of subsidiaries (note 12)	**193**	**203**	**(32)**	**(11)**	**1,019**	**(10)**	**458**	**1,820**
Credit/(charge) to equity for the year								
— origination and reversal of temporary differences	**–**	**3**	**–**	**–**	**–**	**–**	**236**	**239**
— effect of change in tax rate	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Credit/(charge) to profit or loss for the year (Note 19)								
— origination and reversal of temporary differences	**365**	**(169)**	**(10)**	**229**	**(1,134)**	**(399)**	**(257)**	**(1,375)**
— effect of change in tax rate	**142**	**(75)**	**(11)**	**(69)**	**(225)**	**6**	**(23)**	**(255)**
At 31 March 2016	**597**	**2,087**	**246**	**1,549**	**6,036**	**(348)**	**1,042**	**11,209**

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised.

In assessing the amount of deferred income tax assets that need to be recognised, the Group considers expected reversal of deferred tax liabilities, future taxable income and ongoing prudent and feasible tax planning strategies.

At 31 March 2016, the Group has unused tax losses of ¥1,488 million (2015: ¥692 million) for which no deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

The Group's tax losses will expire in one to nine years from 31 March 2016.

40. PROVISIONS

	Asset retirement obligation (Note (i)) ¥ million	Staff vacation payable (Note (ii)) ¥ million	Total ¥ million
At 1 April 2014	3,787	1,619	5,406
Provision/(reversal of provision) for the year	233	(9)	224
Changes in present value	80	–	80
At 31 March 2015	4,100	1,610	5,710
Acquisition of subsidiaries(note 12)	858	93	951
Provision/(reversal of provision) for the year	217	28	245
Changes in present value	84	–	84
At 31 March 2016	**5,259**	**1,731**	**6,990**

Analysed as:

	2016 **¥ million**	2015 ¥ million
Current liabilities	**1,731**	1,610
Non-current liabilities	**5,259**	4,100
	6,990	5,710

Notes:

(i) The asset retirement obligation represents the estimated costs arising from contractual obligations to a landlord to dismantle and remove leasehold improvements and certain fixed assets at the end of the lease contracts. These costs are expected to be paid in after estimated usage period of fixed assets, but will be affected by the future business plans.

(ii) Staff vacation payable represents leave entitlements of employees entity expects to pay as a result of unused leave entitlements at the end of the period.

41. OTHER NON-CURRENT LIABILITIES

	2016	2015
	¥ million	¥ million
Retirement benefit payables converting to the defined contribution plan	**330**	713
Rental deposits received	**369**	152
Halls construction and system payables	**742**	–
Others	**244**	137
	1,685	1,002

42. SHARE CAPITAL

The numbers of the Company's shares authorised and issued are as follows:

	Note	**Number of ordinary shares**	**¥ million**
Authorised:			
At 31 March 2015, and 1 April 2015		2,520,000,000	–
At 31 March 2016		2,520,000,000	–
Issued and fully paid:			
At 31 March 2015 and 1 April 2015		742,850,360	15,000
Increase in Issued and fully paid shares	(i)	38,805,336	–
Decrease in Issued and fully paid shares	(ii)	(14,825,600)	–
— At 31 March 2016		766,830,096	15,000

Notes:

(i) The increase of 38,805,336 shares is due to the acquisition of Yume Corporation that became wholly owned subsidiary through the share exchange.

(ii) The Decrease of 14,825,600 shares is due to the cancellation of shares subject to Article 178 of the Japan Company Law.

42. SHARE CAPITAL *(Continued)*

The Company's treasury shares included in the above issued shares are as follows:

	Note	Number of ordinary shares	¥ million
At 31 March 2015 and 1 April 2015		–	–
Increase in treasury shares	(iii)	16,669,800	3,310
Decrease in treasury shares	(iv)	14,825,600	3,021
At 31 March 2016		1,844,200	289

Notes:

(iii) The increase of 16,669,800 treasury shares consists of:

- 15,669,800 shares acquired as treasury shares subject to Article 156 (replacement of the third paragraph of Article 165) of the Company Law of Japan (the Japan Company Law)
- 1,000,000 shares owned by Yume Corporation

The Company hold the extraordinary general meeting on 20 January 2016 where the general mandate to repurchase shares of the Company was granted within the range of 78,165,569 shares.

(iv) The decrease of 14,825,600 treasury shares is due to the cancellation of shares subject to Article 178 of the Japan Company Law.

The Listing Rules of the Stock Exchange of Hong Kong provide that the listing of all repurchased Shares shall be automatically cancelled upon repurchase and the certificates of such repurchased Shares must be cancelled and destroyed as soon as reasonably practicable following settlement of any such repurchase. Hence, in compliance with Rule 10.06(5) of the Listing Rules, all repurchased shares will be cancelled without undue delay and the certificates for those securities will be cancelled and destroyed. The issued shares and capital reserve of the Company shall also be reduced accordingly.

Notes **to the Consolidated Financial Statements**

FOR THE YEAR ENDED 31 MARCH 2016

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2016 ¥ million	2015 ¥ million
Investments in subsidiaries	(i)	**62,484**	61,141
Other non-current assets		**911**	666
Due from subsidiaries — current portion	(ii)	**29,727**	27,008
Other current assets		**12,292**	15,375
TOTAL ASSETS		**105,414**	104,190
Due to subsidiaries — current portion	(iii)	**(11,397)**	(4,722)
Current tax liabilities		**(4)**	(214)
Other current liabilities		**(142)**	(3,194)
Other non-current liabilities		**(338)**	(168)
TOTAL LIABILITIES		**(11,881)**	(8,298)
Share capital		**(15,000)**	(15,000)
Reserves		**(78,533)**	(80,892)
TOTAL EQUITY		**(93,533)**	(95,892)
TOTAL LIABILITIES AND EQUITY		**(105,414)**	(104,190)

Notes:

(i) Investments in subsidiaries

Fluctuation of investments in subsidiaries is due to

	2016 ¥ million
Acquisition of Yume Corporation shares	**5,775**
Impairment of Dynam Hong Kong shares	**(4,810)**
Others	**378**
	1,343

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes: *(Continued)*

(ii) Due from subsidiaries — current portion

(a) Included in the current portion of the amounts due from subsidiaries was an amount of ¥29,718 million (2015: ¥ 27,001 million) which is unsecured, interest bearing at fixed interest rates of 12-month TIBOR plus 0.6% per annum at contract dates, thus exposing the Company to fair value interest rate risk and is repayable at the specific dates.

(b) The remaining current portion of the amounts due from subsidiaries as at 31 March 2016 represents non-interest bearing balance and is trade in nature.

(iii) Due to subsidiaries — current portion

(a) Included in the current portion of the amounts due to subsidiaries was an amount of ¥ 11,375 million (2015: ¥ 4,702 million) which is unsecured, interest bearing at interest rates of ordinary deposit per annum presented by Sumitomo Mitsui Banking Corporation , thus exposing the Company to fair value interest rate risk and has no fixed term of repayment.

(b) The remaining current portion of the amounts due to subsidiaries as at 31 March 2016 represents non-interest bearing balance and is trade in nature.

44. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of changes in equity.

(b) Company

	Capital reserve (Note 44(c)) ¥ million	Treasury shares ¥ million	Retained earnings ¥ million	Fair value of financial assets measured at FVTOCI ¥ million	Total ¥ million
At 1 April 2014	54,748	–	14,900	–	69,648
Total comprehensive income for the year	–	–	21,644	–	21,644
Transfer upon the curtailment of defined benefit plans	–	–	–	–	–
2015 dividend paid	–	–	(10,400)	–	(10,400)
At 31 March 2015 and 1 April 2015	54,748	–	26,144	–	80,892
Total comprehensive income for the year	–	–	5,779	(80)	5,699
Increase by share exchanges	5,775	–	–	–	5,775
Acquisition of treasury shares	–	(3,161)	–	–	(3,161)
Cancellation of treasury shares	(3,021)	3,021	–	–	–
2016 dividend paid	–	–	(10,672)	–	(10,672)
At 31 March 2016	57,502	(140)	21,251	(80)	78,533

44. RESERVES *(Continued)*

(c) Nature and purpose of reserves

The Capital reserve consists of Capital surplus and Legal reserve.

(i) **Capital surplus**

Under the Company Law of Japan (the "Japan Company Law"), certain percentage of the proceeds from the issuance of share capital shall be credited to the share capital and the remaining of the proceeds shall be credited capital surplus (known as "additional paid-in capital"). Upon approval of the general meeting of shareholders, the additional paid-in capital would be transferred back to the share capital.

(ii) **Legal reserve**

The Japan Company Law provides that a 10% dividend of retained earnings shall be appropriated as legal reserve (a component of either capital surplus or retained earnings) until an aggregate amount of additional paid-in capital and legal reserve equals 25% of share capital. The legal reserve may be used to reduce a deficit or transfer to retained earnings upon approval of the general meeting of shareholders.

(d) Basis for profit appropriation

In accordance with the Japan Company Law, the distributable reserves are determined based on the retained profits and other capital surplus recorded in the Company's non-consolidated financial statements prepared in accordance with Japanese Generally Accepted Accounting Principles.

45. OTHER COMPREHENSIVE INCOME

	Amount recorded during the year ¥ million	**Amount before income tax ¥ million**	**Income tax effect ¥ million**	**Amount after income tax ¥ million**
At 31 March 2016				
Remeasurements on defined benefit retirement plans	**(9)**	**(9)**	**3**	**(6)**
Changes in fair value of financial assets measured at FVTOCI	**(4,510)**	**(4,510)**	**237**	**(4,273)**
Exchange differences on translating foreign operations	**(494)**	**(494)**	**–**	**(494)**
Total	**(5,013)**	**(5,013)**	**240**	**(4,773)**

	Amount recorded during the year ¥ million	Amount before income tax ¥ million	Income tax effect ¥ million	Amount after income tax ¥ million
At 31 March 2015				
Remeasurements on defined benefit retirement plans	–	–	(1)	(1)
Changes in fair value of available-for-sale financial assets	(8,979)	(8,979)	21	(8,958)
Exchange differences on translating foreign operations	1,143	1,143	–	1,143
Total	(7,836)	(7,836)	20	(7,816)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

46. LIST OF SUBSIDIARIES

Particulars of the subsidiaries as at 31 March 2016 are as follows:

Name of subsidiary	Place/date of incorporation/ establishment	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			2016	2015	
Directly held					
Dynam	Japan 25 July 1967	¥5,000,000,000	**100%**	100%	Operation of pachinko halls
Cabin Plaza	Japan 25 May 1988	¥10,000,000	**100%**	100%	Operation of pachinko halls
Yume Corporation (Note (i) (ii))	Japan 14 December 1970	¥50,000,000	**100%**	–	Operation of pachinko halls
Pattes (Note (i) (ii))	Japan 8 September 2010	¥3,000,000	**100%**	–	Real estate and property management
Japan Real Estate (Note (i))	Japan 4 September 2001	¥10,000,000	**100%**	–	Real estate and property management
Dynam Business Support	Japan 31 October 2003	¥1,020,000,000	**100%**	100%	Real estate and property management Provision of accounting and administration services
Shinrainomori Association (Note(iii))	Japan 3 December 2008	–	**100%**	100%	Supporting arm of a franchise chain under Shinrainomori to undertake non-profit brand-building activities
Dynam Hong Kong Co., Limited	Hong Kong 7 January 2013	HK$500,000,000	**100%**	100%	Investment holding
Humap	Japan 1 November 1982	¥100,000,000	**100%**	100%	Operation of restaurants Clearing services for Pachinko Halls
Business Partners	Japan 11 January 2011	¥30,000,000	**100%**	100%	Office cleaning services Manufacture and sales of household supplies

46. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place/date of incorporation/ establishment	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing 2016	2015	Principal activities
Indirectly held					
Kanto Daido	Japan 22 January 1992	¥50,000,000	**100%**	100%	Trading of pachinko machines
Shinrainomori	Japan 3 December 2008	¥10,000,000	**100%**	100%	–
Rich-O Korea	South Korea 27 February 2006	KRW675,000,000	**100%**	100%	Trading of LCD monitors
Erin Int'l	Mongolia 30 May 2003	MNT3,254,222,125	**87.61%**	87.61%	Operation of international freight forwarding services and contracting services for construction works, property transactions and management services
Beijing GEO	PRC 4 August 2004	RMB32,050,300	**100%**	100%	Sales of coffee beans
Genghis Khan	Japan 13 November 2003	¥47,000,000	**100%**	100%	Travel agency
P Insurance	Japan 28 January 2005	¥10,000,000	**100%**	100%	Insurance agency

Notes:

(i) The Company acquired entire issued share capital of Yume Corporation on 1 November 2015 by the share exchange.

As a result of obtaining control, Yume Corporation and its subsidiaries, Pattes and Japan Real Estate, became the wholly owned subsidiary of the Group.

(ii) Yume Corporation and Pattes merged on 1 April 2016.

(iii) Shinrainomori Association is a general incorporation association organised under the GIA/GIF Law in Japan. Under the GIA/GIF Law, there is no concept of shareholding nor equity interest in a general incorporation association.

Notes **to the Consolidated Financial Statements**

FOR THE YEAR ENDED 31 MARCH 2016

47. MATERIAL NON-CASH TRANSACTIONS

	2016	2015
	¥ million	¥ million
Increase of capital reserve by Share Exchange (i)	**5,775**	–

(i) Acquisition of 100% of the issued share capital of Yume Corporation by the share exchange.

48. CONTINGENT LIABILITIES

At 31 March 2016, the Group did not have any significant contingent liabilities (2015: Nil).

49. CAPITAL COMMITMENTS

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

	2016	2015
	¥ million	¥ million
Contracted but not provided for	**204**	870
Approved but not contracted for	**4,219**	13,982
	4,423	14,852

50. LEASE COMMITMENTS

(a) Lessee

At 31 March 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	2015
	¥ million	¥ million
Within one year	**769**	783
In the second to fifth years, inclusive	**1,896**	1,781
After five years	**763**	1,018
	3,428	3,582

The Group leases certain land and buildings under operating leases. The leases typically run for an initial average period of 20 years (2015: 20 years). The Group has the option to cancel the leases on payment of a penalty at various stages of the initial lease periods depending on the terms of the specific leases concerned.

Lease payments during the year are as follows:

	2016	2015
	¥ million	¥ million
Lease payments		
Land and Buildings	**10,094**	9,731

51. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.

52. BENEFITS AND INTEREST OF DIRECTORS

(a) The emoluments of the director, including director concurrently serving as an executive officer

The emoluments of each of the Company's director, including director concurrently serving as an executive officer, were as follows:

Name	Fees ¥ million	Salaries, allowances and benefits in kind ¥ million	Retirement benefit contributions scheme ¥ million	Discretionary bonus ¥ million	Total ¥ million
Year ended 31 March 2016					
Executive director					
Mr. Kohei Sato *(Chief executive officer)*	–	42.0	–	5.5	47.5
Mr. Yoji Sato	–	7.4	–	2.3	9.7
Mr. Haruhiko Mori	–	32.9	–	3.6	36.5
Non-executive director					
Mr. Noriaki Ushijima	–	6.0	–	–	6.0
Independent non-executive director					
Mr. Ichiro Takano	–	6.0	–	–	6.0
Mr. Mitsutoshi Kato	–	6.0	–	–	6.0
Mr. Thomas Chun Kee Yip	–	6.0	–	–	6.0
Mr. Eisho Kunitomo	–	5.0	–	–	5.0
Mr. Kei Murayama	–	5.0	–	–	5.0
Total	–	116.3	–	11.4	127.7

52. BENEFITS AND INTEREST OF DIRECTORS *(Continued)*

(a) ***The emoluments of the director, including director concurrently serving as an executive officer*** *(Continued)*

Name	Fees ¥ million	Salaries, allowances and benefits in kind ¥ million	Retirement benefit contributions scheme ¥ million	Discretionary bonus ¥ million	Total ¥ million
Year ended 31 March 2015					
Executive director					
Mr. Yoji Sato	–	12.6	–	8.5	21.1
Mr. Kohei Sato *(Chief executive officer)*	–	42.0	–	8.5	50.5
Non-executive director					
Mr. Noriaki Ushijima	–	6.0	–	–	6.0
Independent non-executive director					
Mr. Katsuhide Horiba	–	6.0	–	–	6.0
Mr. Ichiro Takano	–	6.0	–	–	6.0
Mr. Yukio Yoshida	–	6.0	–	–	6.0
Mr. Mitsutoshi Kato	–	5.8	–	–	5.8
Mr. Thomas Chun Kee Yip	–	5.8	–	–	5.8
Total	–	90.2	–	17.0	107.2

Notes:

(i) Mr. Eisho Kunitomo and Mr. Kei Murayama were appointed as an executive director on 24 June 2015.

Mr. Katsuhide Horiba and Mr. Mr. Yukio Yoshida were retired as an executive director on 24 June 2015.

(ii) Mr. Kohei Sato was appointed as an executive director on 26 June 2014.

(iii) Save as disclosed above, there was no arrangement under which a director or chief executive officer waived or agreed to waive any emoluments during the year ended 31 March 2016 (2015: Nil).

(b) ***Consideration provided to third parties for making available director's services***

The Company did not pay any consideration to any third party for making available director's services for the year ended 31 March 2016 (2015: Nil).

52. BENEFITS AND INTEREST OF DIRECTORS *(Continued)*

(c) Information about loans, quasi-loans and other dealings in favour of the director controlled bodies corporate by and connected entities with such director

No loans, quasi-loans and other dealings were made available in favour of the director, controlled bodies corporate by and connected entities with such director subsisted at the end of the year or at any time during the year 31 March 2016 (2015: Nil).

(d) Director's material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year 31 March 2016 (2015: Nil).

53. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of directors on 26 May 2016.

Definitions

In this Annual Report (other than the Independent Auditor's Report), unless the context otherwise requires, the following words and expressions shall have the following meanings.

"AGM"	annual general meeting of the Company
"Articles of Incorporation"	Articles of Incorporation of the Company as amended and supplemented from time to time
"Audit Committee"	audit committee of the Company
"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 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" or "Dynam Japan Holdings"	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)
"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

Definitions

"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 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
"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 Annual Report, Erin International is held as to 87.61% by the Company through Dynam Hong Kong
"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% by the Company through HUMAP Japan
"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
"gross pay-ins"	the amount received from pachinko balls and pachislot tokens rented to customers less unutilized balls and tokens
"gross payouts"	the aggregate costs of G-prizes and general prizes exchanged by customers for pachinko balls or pachislot tokens collected at halls
"Group"	the Company and its subsidiaries at the relevant time

"high playing cost halls"	our hall type primarily featuring high playing cost machines and mainly operating under the brand of DYNAM and including Yume Corporation halls and Cabin Plaza 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
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HUMAP Japan"	HUMAP Japan Co., Ltd.* (株式会社日本ヒュウマップ), a stock company (kabushiki-gaisha 株式会社) incorporated in Japan with limited liability under the Companies Act on 1 November 1982 (registration number 0115-01-008097). HUMAP Japan is a wholly-owned subsidiary of the Company
"ICT"	information and communication technology
"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 Main Board of the Stock Exchange (Stock Code: 799)
"individual ball counter system"	the system for counting balls and tokens introduced at each machine at each of our halls, which enables us to manage pachinko ball and pachislot token numbers at each machine. Use of this system eliminates the need for customers to stack and carry boxes of balls they earn during game play and also reduces work volume and work hours for pachinko hall staff. This has led to reduced personnel expenses and improved personnel productivity at our halls
"Japan Real Estate"	Japan Real Estate Co., Ltd.* (ジャパンリアルエステイト株式会社), a stock company (kabushiki-gaisha 株式会社) incorporated in Japan with limited liability under the Companies Act on 4 September 2001. Japan Real Estate is held as to 100% by the Company through Yume Corporation

Definitions

"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% by the Company through HUMAP Japan
"Latest Practicable Date"	26 May 2016
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"low playing cost halls"	our hall type primarily featuring low playing cost machines and mainly operating under the brand of Yuttari Kan, where smoking is allowed in the halls and Shinrai no Mori, where smoking is not allowed except in designated areas, and including Yume Corporation halls and Cabin Plaza halls
"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
"machine utilization"	the number of pachinko balls/pachislot tokens played per machine per day
"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
"Nomination Committee"	nomination committee of the Company
"One Asia"	One Asia Foundation* (一般財団法人ワンアジア財団), a general incorporated foundation (ippan zaidan houjin 一般財団法人) established in Japan under the GIA/GIF Law on 21 December 2009 (registration number 0115-05-01395) and a substantial Shareholder. As at 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
"pachislot tokens" or "tokens"	small metal tokens used to play pachislot games
"P Insurance"	P Insurance Co., Ltd.* (株式会社ピーインシユアランス), a stock company (kabushiki-gaisha 株式会社) incorporated in Japan with limited liability under the Companies Act on 28 January 2005 (registration number 0115-01-013256). P Insurance is 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
"P-World"	a pachinko hall information portal site
"Remuneration Committee"	remuneration committee of the Company
"Reporting Period"	the period from 1 April 2015 to 31 March 2016
"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)
"Rich-O Korea"	Rich-O Korea Co., Ltd.* (株式会社リッチオコリア), a company incorporated with limited liability in South Korea on 27 February 2006 (registration number 110111-3408732). Rich-O Korea is held as to 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
"Share(s)"	ordinary share(s) in the issued share capital of the Company
"Shareholder"	holder(s) of the issued share(s)

Definitions

"*Shinrai no Mori*" (信頼の森)	our pachinko hall brand and hall type featuring primarily low playing cost machines in a non-smoking environment with reduced noise levels, space for players to relax and socialise, and a larger selection of general prizes
"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
"substantial Shareholders"	ascribed to the meaning under the Listing Rules
"TIBOR"	Tokyo Interbank Offered Rate
"Yume Corporation"	Yume Corporation Co., Ltd.* (夢コーポレーション株式会社), a stock company (kabushiki-gaisha 株式会社) incorporated in Japan with limited liability under the Companies Act on 14 December 1970. It has become a wholly-owned subsidiary of the Company under the scheme of the Share Exchange on 1 November 2015
"*Yuttari Kan*" (ゆったり館)	our pachinko hall brand and hall type featuring primarily low playing cost machines

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.*