Annual Report 2017

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)
Stock Code: 06889

* For identification purpose only

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

FIVE MANAGEMENT POLICIES

1

Principle of Customers First

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

2

Information Disclosure

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

3

Chain Store Management

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

4

Training of Human Resources

The Group trains human resources and uses their collective energy.

5

Social Contribution

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

THREE PRINCIPLES OF ACTIONS

1. The Group complies with laws and regulations and rules, and deals with people respectfully.
2. The Group takes decisive actions and values team work.
3. The Group confirms the actual situation on site, and presents it using numerical expressions.

DYNAM JAPAN HOLDINGS Co., Ltd.*

Annual Report **2017**

Editorial Policy

Annual Report 2017 is produced to provide a comprehensive view of the Group through its non-financial information in addition to financial information, such as management strategies and social and environmental issues to all trusted associates (stakeholders), including shareholders and investors. The international integrated reporting framework stipulated by the International Integrated Reporting Council was used as reference in compiling the contents of this report.

Reporting Period

This report covers the period from 1 April 2016 to 31 March 2017. However, some activities in or after April 2017 are also included.

Reporting Organizations

In principle, the Annual Report 2017 applies to the Group (i.e. the Company, 10 Group companies in Japan and 4 Group companies overseas). Individual company names will be used when it is necessary to delineate the scope of application.

Reference Guidelines for Disclosure of Non-Financial Information

- Appendix 27 of Listing Rules
- Global Reporting Initiative (GRI)
  Sustainability Reporting Guidelines Version 4
- ISO26000
- Sustainable Development Goals (SDGs)

To comply with Appendix 27 of the Listing Rules, CSR Report 2017 will be published within three months of publication of Annual Report 2017.

Materiality and Comprehensiveness

Annual Report 2017 prioritizes reporting on important themes for the Group and society.
For comprehensive and detailed information, please additionally refer to the CSR Report 2017, which will be published within three months of the publication of Annual Report 2017.

Contents

CSR

Top Management

Finance

Consolidated Financial Results

The followings are major consolidated financial results for the year ended 31 March 2017.

Revenue and Income

Gross pay-ins ¥817,777 mill.

Revenue ¥156,869 mill.

Other income ¥9,224 mill.

Gross pay-ins represents the amount received from pachinko balls and pachislot tokens rented to customers less unutilised balls and tokens. Gross pay-ins are comparable with gross sales in general companies.

Our revenue represents the gross pay-ins, less gross payouts to customers and our revenue margin represents revenue divided by gross pay-ins. Our revenue is comparable with net sales (gross profit) in general companies. Gross payouts represents the aggregate cost of G-prizes and general prizes exchanged at our halls by our customers.

Other income represents income from other businesses than pachinko hall operation, including income from restaurant management near pachinko halls, loyalty income from vending machines, and rental income.

Profit

Operation profit ¥15,899 mill.

Profit before income taxes ¥14,825 mill.

Net profit for the year ¥9,305 mill.

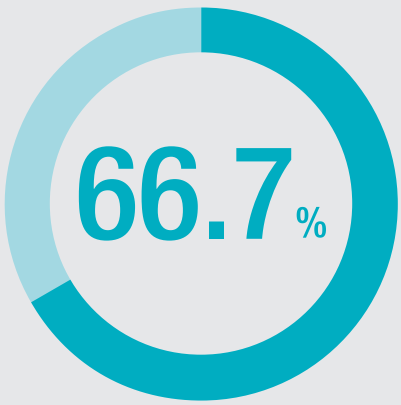
Consolidated Financial Position

The followings are major consolidated financial position as at 31 March 2017.

Total assets ¥205,115 mill.

Shareholder's equity (Net assets) ¥136,881 mill.

Capital adequacy ratio



The capital adequacy ratio is an indicator of our financial strength, which is calculated as shareholder's equity (net assets) divided by total assets.

Cash Flow Generation Capability, Cash and Deposits, Fund Raising Capacity

EBITDA ¥28,469mill.

Cash and cash equivalents at the end of the year ¥48,499mill.

Credit facility ¥34,000mill.

EBITDA is defined as earnings before finance costs, taxation, depreciation, amortisation, and net foreign exchange gain or loss. It is one of the indicators of our cash flow generation capability.
Credit facility represents total amount of loan facilities for the Group including commitment lines of mega-banks in Japan.
The Group has maintained a strong financial position 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.

Shareholder Returns

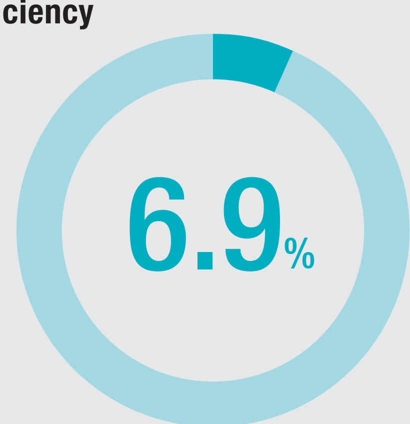
The Company focuses on the consistent payment of stable dividends as its basic policy for distributing profits to shareholders.
For the fiscal year ended 31 March 2017, we decided to distribute a year-end dividend of ¥6 per share in accordance with its stable dividend policy. Combined with the interim dividend of ¥6 per share, the total annual dividend is ¥12 per share for a dividend payout ratio of 98.8%.

Annual dividend per share ¥12

Dividend payout ratio

Capital efficiency

ROE



The ROE (Return of Equity) is an indicator of our capital efficiency, which is calculated as net profit for the year divided by shareholder's equity (net assets).

A summary of the results and of the assets and liabilities of the Group for the last five reporting years is set out from page 66 to page 67 of this Annual Report.
The detailed information on results and financial position of the Group for the Reporting Period are set out in the consolidated financial statements and notes from page 82 to page 159 of this Annual Report.

Numerical Data of Pachinko Hall Operation

446 halls
Number of halls

No.1
Industry position

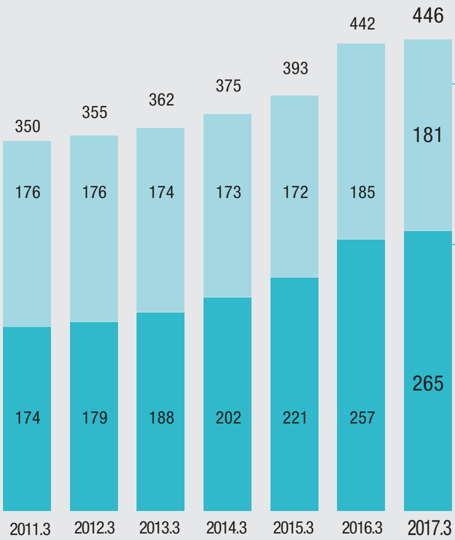
205,852 machines
Total number of gaming machines

70.7%
Proportion of low playing cost machines to total number of machines

As at 31 March 2017

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 10 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, and Shinrai no Mori, where smoking is not allowed except in designated areas. They are comprised of 28 halls operated by Yume Corporation and 7 halls operated by Cabin Plaza.

For the year ended 31 March 2017, we opened 5 low playing cost halls. In addition, we closed 1 low playing cost hall in line with a change in our business areas. Also, we converted 5 high playing cost halls to low playing cost halls and 1 low playing cost hall to high playing cost hall. As a result, we had a total of 446 halls in operation as of 31 March 2017.
By hall type, we operate 181 high playing cost halls and 265 low playing cost halls, with low playing cost halls making up the majority at 59% of the total.

Increasing number of low playing cost machines

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

The national average proportion of low playing cost machines to total number of machines was 46.4% as of 31 December 2016. On the other hand, the Group has developed this to 70.7% as of 31 March 2017. The proportion of halls featuring low playing cost machines is 99.3% in the Group.

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.

Numerical Data of Human Resources

17,809 employees

Number of Group Employees

Ratio of female employees

53.9%

Configuration of the Board of Directors

Ratio of outside directors among directors

6/9

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 2017, the Group had a workforce of 17,809 employees. The Group's creation of these jobs and retention of the employees have helped to enhance its recognition from society.
Among the 9 Directors, there are 6 outside Directors prescribed under the Companies Act.

Numerical Data of Pleasant Working Environment

94.7%

Ratio of employees returning to work after childcare leave

For the year ended 31 March 2017

Social expenditure

¥214 mill.

Total amount of specified donations and sports sponsorships

For the year ended 31 March 2017

Numerical Data of Environmental protection

Total power consumption

383 mill. kWh

CO_2 emissions

198 thou. t-CO_2

The total power consumption and CO_2 emissions are calculated in accordance with the prescribed aggregation method for environmental reporting to the Ministry of Environment in Japan.

For more detailed information on our CSR, please refer to "CSR of The Group" on pages from 22 to 51.

* An organization comprising third-party experts and specialists 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.

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
Foundation

1987
The company name changed to Dynam

2001
100 halls

1967~

Foundation: Started operating pachinko halls, the Group's core business

Sawa Shoji Co., Ltd. was established. Started operating two halls.

1967	Established Sawa Shoji Co., Ltd., the predecessor of Dynam

1987~

Expanded the hall business through chain store management

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)
1993	Dynam became a member of the Pegasus Club, a chain store research organization
1994	Opened a wood-framed, low-cost, standardized hall in Ebetsu, Hokkaido
1998	Dynam established the Dynam Union, the first labor union in the pachinko industry

2000~

Opened halls rapidly and developed new format sales

Rapidly opened halls throughout Japan and established DYNAM Yuttari Kan to prioritize the entertainment aspect of pachinko halls

2001	Opened the Group's 100th pachinko hall
2004	Opened the Group's 200th pachinko hall
2007	Began full-scale operation of the DYNAM Yuttari Kan brand of low playing cost machines and a wide selection of general prizes

2004
200
halls

2009
300
halls

2011~

2015
400
halls

2017
As of
March 31, 2017
446
halls

2009 Opened the first DYNAM Shinrai no Mori hall, a new type of hall giving a fresh image to conventional pachinko

Listed on the Hong Kong Stock Exchange.

Listed publicly, becoming the first pachinko hall operating company to do so, and taking a significant step toward global recognition.

2011 Dynam Japan Holdings was established

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

Expanded sales by becoming a corporate group

2013 Dynam Hong Kong was established

2015 Acquired Yume Corporation into the Group

50 Years

DYJH

Outline of The Group

The Company is a holding company which directly holds shares of 3 pachinko hall operators including Dynam and 4 other subsidiaries with other businesses. The Group operates pachinko hall business as its core business and has the largest pachinko hall chain in Japan with 450 halls as of 25 May 2017.

The Company

As at 25 May 2017

Pachinko Hall Business

- Dynam
- Yume Corporation — Japan Real Estate
- Cabin Plaza

Other Non-core Businesses

- Dynam Business Support
  - Kanto Daido
  - Genghis Khan
  - P Insurance
- Nihon Humap
- Business Partners
- Dynam Hong Kong
  - Rich-O Korea
  - Erin International
  - Beijing GEO

Profiles of Subsidiaries

Pachinko Hall Business

Dynam

Operates under three business names across Japan as forms of everyday entertainment: DYNAM (high playing cost halls), DYNAM Yuttari Kan and DYNAM Shinrai no Mori (low playing cost halls).

Yume Corporation

Yume Corporation was acquired into the Group in November 2015. They have been conducting chain store management since its establishment just like Dynam. Yume Corporation operates 38 halls under the Yumeya brand in Japan.

Cabin Plaza

Cabin Plaza was created from the merger of subsidiaries of the Company in April 2009. It operates nine halls under the names of Cabin Plaza and Yasumi Jikan.

Other Businesses that Support Group Management

Dynam Business Support

Dynam Business Support supports the entire Group by managing real estate owned by the Group and pachinko hall development. They also undertake administrative duties including payrolls and accounting. Furthermore, they deal with gaming machines.

Nihon Humap

Nihon Humap operates restaurants near pachinko halls and large spaghetti restaurants, manages the cleaning of Group pachinko halls, and engages in real estate management, trade and financial operations.

Business Partners

Business Partners is a special subsidiary which set up to employ people with disabilities. There are 20 employees with disabilities working on cleaning office buildings as well as making and selling bags, small items and other miscellaneous items.

Dynam Hong Kong

Dynam Hong Kong is a subsidiary in Hong Kong established for the purpose of investment, management and development of the Group's overseas business, centered in Asia. The company investigates and promotes new business in Asian markets with remarkable growth.

For the Group to grow and develop sustainably, we will continue to work together with all trusted associates to continue to create value.

Kohei Sato
Chairman of the Board and Chief Executive Officer

First of all, I would like to express my heartfelt appreciation to all of the Group's trusted associates, including our Shareholders and other stakeholders, for their continuous support and understanding.

During the fiscal year under review, the Japanese economy tended toward a gradual recovery as corporate results and the employment environment continued to improve. However, the outlook remains uncertain due to potential concerns about overseas trends, including the policy management of the new U.S. administration and the political situation in Europe, as well as the labor shortage and sluggish capital investments in Japan.

The pachinko hall industry continues to experience a harsh operating environment with personal consumption not reaching a full-scale recovery due to factors such as stagnant real wages.

Under such an environment, the Group adopted a key policy of prioritizing hall creation from the customer's viewpoint and promoting sales focused on customers at each hall, refurbished halls and implemented various experimental sales policies, all as an initiative for growing and developing the Group together with the local community.

Furthermore, as an effort to improve operations, the Group incorporated the companywide sharing of successful examples of gaming environment improvements and sales measures that each hall is engaged in.

In the fiscal year ended 31 March 2017, the revenue was ¥156,869 million (approximately HK$10,864 million), recording an increase by ¥958 million (approximately HK$66 million) or 0.6% year-on-year.

This year will mark the sixth year since our shares were listed on the Main Board of the Hong Kong Stock Exchange in August 2012.

The whole Group together continues to further enhance our earnings.

CHAIN STORE MANAGEMENT AS THE SOURCE FOR REALIZING OUR VISION AND LONG-TERM GROWTH

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

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.

One of our management policies is chain store management, since the Group firmly believes that the consistent and practical application of the chain store business model will be our source of realizing our vision and 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.

The Group's chain has expanded to be composed of 446 halls with a total installation of more than 200,000 game machines as at the end of March 2017.

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 HALL INDUSTRY AND OUR INDUSTRY POSITION

There are currently around 3,400 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. The pachinko hall industry has no dominant company with an overwhelming market share, but instead is a structurally fragmented market with many small operators.

Under the fiercely competitive business environment the industry faces, small operators are being weeded out of business, while companies such as ours have grown to a scale which we can list our stocks. For the outlook of the industry, 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.

As a listed company, we can maximize our gain from industry consolidation, and I think that we are in a superior position to raise our market share.

THE FUTURE OF PACHINKO HALLS AND THE GROUP'S ROLE

The number of people playing pachinko has decreased in recent years.

We think changes in the social structure such as the diversification of entertainment that is drawing young people away from pachinko and the declining population in Japan are the reasons behind this trend. We are at a point in time when it is unlikely that a pachinko company will develop in a sustainable manner simply by continuing to repeat the conventional business model of the pachinko hall industry.

“Customer creation” is what we think to be demanded from pachinko halls in the future.

With the diversification of entertainment sector, we need to find out what types of entertainment customers are seeking, and what they seek to gain through entertainment, and when we can provide that to them through pachinko halls, so as to create value for the customers. We believe that creating a new customer base will also shore up our earnings foundation.

Achieving the above is the true meaning of the Principle of Customer First, which is one of our management policies.

Dynam, our wholly-owned subsidiary, has established a specialist team to engage in innovation with the aim of customer creation. Some DYNAM *Shinrai no Mori* halls have been designated as pilot halls and we have started a new trial focusing on people.

DYNAM *Shinrai no Mori* halls were launched in 2009 as a new style of hall that changed the concept of pachinko with the then-unprecedented policy of being smoke-free or having smoking restricted to designated areas in the 24 halls that opened. To respond to local communities' demands for health and safety, DYNAM *Shinrai no Mori's* new value provision has formed a new appearance for pachinko halls needed in local communities.

Precisely, as it is time of diversifying entertainment, we believe that facing up to the changes in society and the environment and creating value as a new type of pachinko hall is a growing opportunity for sustainable development.

RAISING VALUE FOR ALL TRUSTED ASSOCIATES TO ENHANCE CORPORATE VALUE

The Group names its “stakeholders,” such as customers, local communities, business partners, employees, shareholders and investors, “trusted associates.” For the Group to continue to develop over the long-term it is crucial to deepen the relationship of trust with broader society, including the customers who use our pachinko halls and the communities in which our halls are located.

Moreover, we believe that by meeting the expectations of various trusted associates and raising what each of these people consider to be our value will enhance the overall corporate value.

We have adopted the slogan of “pachinko living with communities” as words symbolizing our corporate image through the pachinko hall operation business. We adopted this slogan because without the development of towns there can be no development of the Group.

Continuing to provide new value to trusted associates through CSR activities provides some assistance to resolving global environment problems and issues faced by the local communities, and through corporate activities that fulfill responsibilities regarding sustainable urban development, enables business growth and leads to the enhancement of unified corporate value.

The operational front line and head office are working in unison to solve social issues, so that the Group is continuously being widely trusted by society.

Following enactment of the Act on Promoting Development of Areas for Specified Integrated Resort Facilities (Integrated Resort Promotion Act) in December 2016, the Japanese government held a Cabinet meeting on measures against gambling addiction and started full-scale examination. The Group has faced this social problem of "dependence" and is advancing creation of environments in which customers can enjoy playing pachinko in safety and security.

Also, 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.

From the annual report for the current fiscal year (from 1 April 2016 to 31 March 2017), in addition to financial information, it is now compulsory to disclose environmental, social and corporate governance (ESG), that is, non-financial information.

The Group aims to enhance corporate value through a comprehensive disclosure of information, including about the Group's CSR, and by considering and adopting requests and opinions obtained from trusted associates to improve management.

■ AIMING TO BECOMING A COMPANY LASTING A CENTURY

This year, 2017, is a landmark occasion as it marks the 50th anniversary of our wholly-owned subsidiary Dynam, which was established as Sawa Shoji Co., Ltd., in 1967.

The 50 years of Dynam's existence is also the history of the Group's development.

When Dynam was established we operated just two pachinko halls. Subsequently, we steadily increased the number of halls under operation and now, 50 years later, the entire Group has developed into the largest pachinko hall operating chain in the industry with 450 halls (as at 25 May 2017).

The Group did not arrive at its current situation by itself. We have been able to grow to the extent that we have because we have received the enormous support and understanding of our trusted associates such as customers, local communities, business partners, employees and shareholders and investors. I would like to take this opportunity to thank all stakeholders once again.

The Group Corporate Philosophy is "A Centurial Commitment to Building Trust and Encouraging Dreams".

"Centurial" we refer to symbolizes our perpetual growth and development.

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

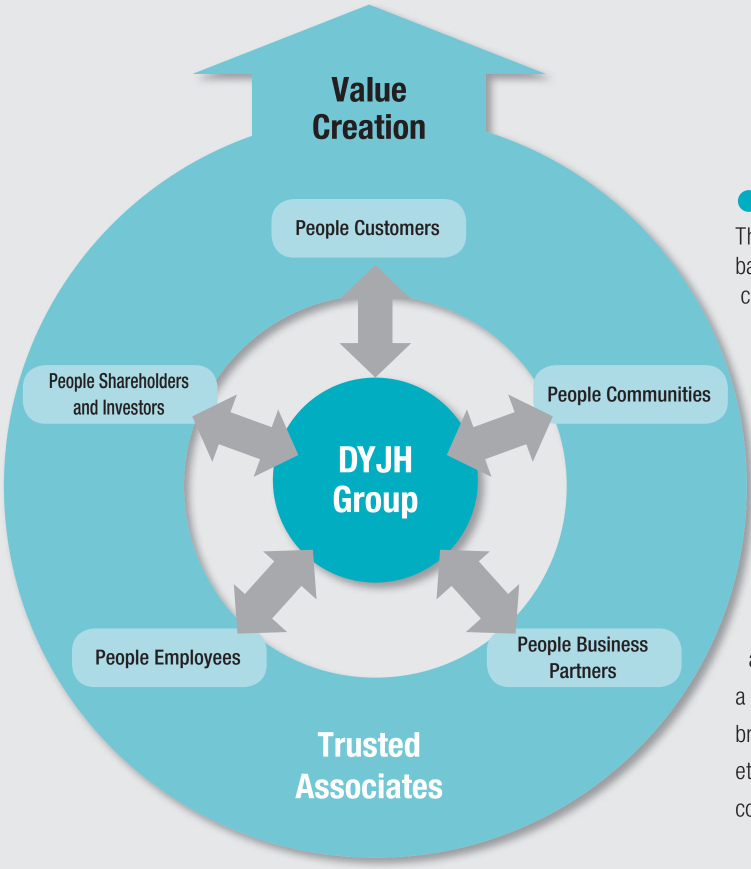
25 May 2017

We aim for sustainable growth in corporate value while improving value for all trusted associates.

Through CSR activities, the Group intends to increase value for all trusted associates — customers, local communities, business partners, employees, shareholders and investors — through ongoing diligent efforts in environmental (E), social (S) and governance (G) on the basis of relationships of trust. We believe the intrinsic value of our operations will be enhanced by addressing issues that concern local communities, while fulfilling the expectations of trusted associates through our core operations. With all employees of the Group together in unison, we aim to maximize corporate value while eyeing sustainable growth as a corporation through daily progress on these initiatives.

Creation of Value for All Trusted Associates

We believe that by meeting the expectations of various trusted associates and raising what each of these people consider to be our value will enhance the overall corporate value.



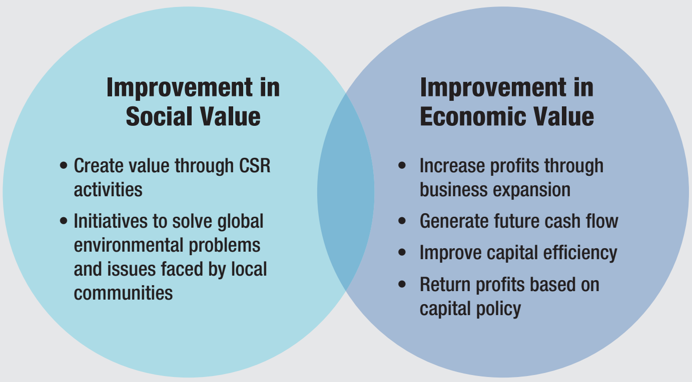
Focus on People

The Group seeks to create value with a focus on people, based on the belief that people are always at the center of corporate activities. As people, employees are the main creators of value, and trusted associates are also people that contribute to this value. By having a focus on people, we believe that building relationships of trust with our trusted associates (i.e., people) will ultimately lead to the creation of value.

Trusted Associates

In disclosing this Annual Report, the Group refers to customers, local communities, business partners, employees, and shareholders and investors as "trusted associates," but this does not limit who may be regarded as a trusted associate. Our basic stance is that the phrase is a broad concept that includes everybody (financial institutions, etc.) referred to in our corporate philosophy and code of conduct, and this in turn entails all involved stakeholders.

Improvement in Both Social Value and Economic Value through CSR



Continuing to create value for trusted associates through CSR activities provides some assistance to resolving global environment problems and issues faced by local communities, and through corporate activities that fulfill responsibilities regarding sustainable urban development, enabling business growth and leading to the enhancement of unified corporate value. The Group aims for sustainable growth by improving both social value and economic value at the same time.

Management of Risks and Opportunities

Companies have an impact on society in various ways as a result of their business activities. We see business opportunities for long-term growth from the positive impact we can have on solving problems in local communities, such as the health benefits of playing pachinko in preventing dementia, and ideas for new types of pachinko halls. We understand there are risks that threaten business growth, including the negative impact of gaming addiction. While monitoring and properly managing these risks and opportunities, we aim to maximize the value we provide to trusted associates.

Opportunities
Create new business opportunities through innovation while addressing the demands and expectations of customers and local communities

Risks
Minimize business risks by addressing social issues

Maximize value provided to trusted associates

Management Resources as Source for Value Creation (Six Types of Capital)

Out of the management resources available to the Group, non-financial capital — such as human capital, intellectual capital, and social/relationship capital — are competitive advantages that cannot easily be imitated by rivals. These important management resources are the source of value creation. These management resources are converted into value as an outcome of the corporate activities guided by people, and this value is then transferred to trusted associates. The value created in this cycle leads to an unending circle of improvement in social value and economic value for sustainable development.

Six Types of Capital

Invisible Capital
(Non-financial capital)

Human Capital
- Extensive human resources (continued hiring of new graduates and long-term training of human resources)
- Pachinko hall employees who have good relationships with customers
- Innovative education system
- Enduring corporate philosophy and culture

Intellectual Capital
- Management of pachinko halls based on the theory of chain store management
- Accumulation of pachinko hall operating know-how
- Accumulation of sales information in databases
- Branding

Social/relationship Capital
- Recognition as a leading company in the industry
- Partnerships with business partners (i.e., joint development of game machines and prizes)
- Status and reputation as a listed company

Visible Capital

Physical Capital
- Hall and restaurants (pachinko halls and restaurants adjacent to pachinko halls)
- Gaming machines and general prizes

Financial Capital
- Cash and deposits
- Credit facility (Financial credit)

Natural Capital
- Electric power, domestic water

A Cycle of Value Creation and Sustainable Development

We focus on people, raise the value we provide to all our trusted associates and aim to work together with local communities to achieve sustainable development.

Input

Management Resources (Six Types of Capital)

Invisible Capital

- Human Capital
  (Human resources, Education, Organization)
- Intellectual Capital
  (Knowhow, Brands)
- Social/relationship Capital
  (Trust, Recognition)

Visible Capital

- Physical Capital
  (Halls, Hall equipment)
- Financial Capital
  (Financial base, Financial credit)
- Natural Capital
  (Resources, Energy)

Social Issues the Group Faces

Creation of a society where all individuals enjoy good health and live cheerfully through wholesome entertainment

- Realization of daily enjoyment
- Promotion of diversity
- Realization of a society comfortable for seniors
- Fulfillment of a child-raising environment
- Management of proper energy usage

Social Background

- Global warming
- Arrival of the ultra-aging society
- Increased awareness of health
- Accelerated decline in the birthrate

Trust

Expansion of management resources for further development

Sustainable Growth

Business Model

Framework for value creation

Execution of chain store management
- Value creation from the perspective of customers
- Multiple-hall development
- Low-cost operations
- Standardization and numerical management

Human resources management and organizational growth
- Innovative human resources education system
- Uphold corporate culture, share vision
- Continued recruitment of new graduate employees and long-term development

Corporate Governance
- Internal control and Compliance
- Management of risks and opportunities
- Proper decision making by top management

Spreading the corporate culture through all employees

Challenge ▶ Innovation

Operational Excellence

Value Creation

Output

Providing value to trusted associates

“People” to customers
- Experiential value as an everyday entertainment

“People” to local communities
- Contributing to society through our core business
- Value as local infrastructure
- Preserving local environments as a place where “people”can feel alive

“People” to employees
- Environments where leaders in value creation (employees) can work cheerfully

“People” to business partners
- Shared prosperity based on partnerships

“People” to shareholders and investors
- Investment return (Capital gain, Income gain)

Outcome

Improvement in Social Value

Safety and comfort
- Feel safe in a comfortable space and live healthily.
- Work in environment easy to work in.

Growth, sense of accomplishment, fulfilled lifestyle
- Daily lifestyles with joy and brightness.
- Have a sense of worthiness work with devotion to the job

Improvement in Economic Value

Expansion of business scale
- Increase in number of halls

Generated profit and cash

Improvement of capital efficiency

Shareholder return based on capital policy

Improvement in both social value and economic value through CSR

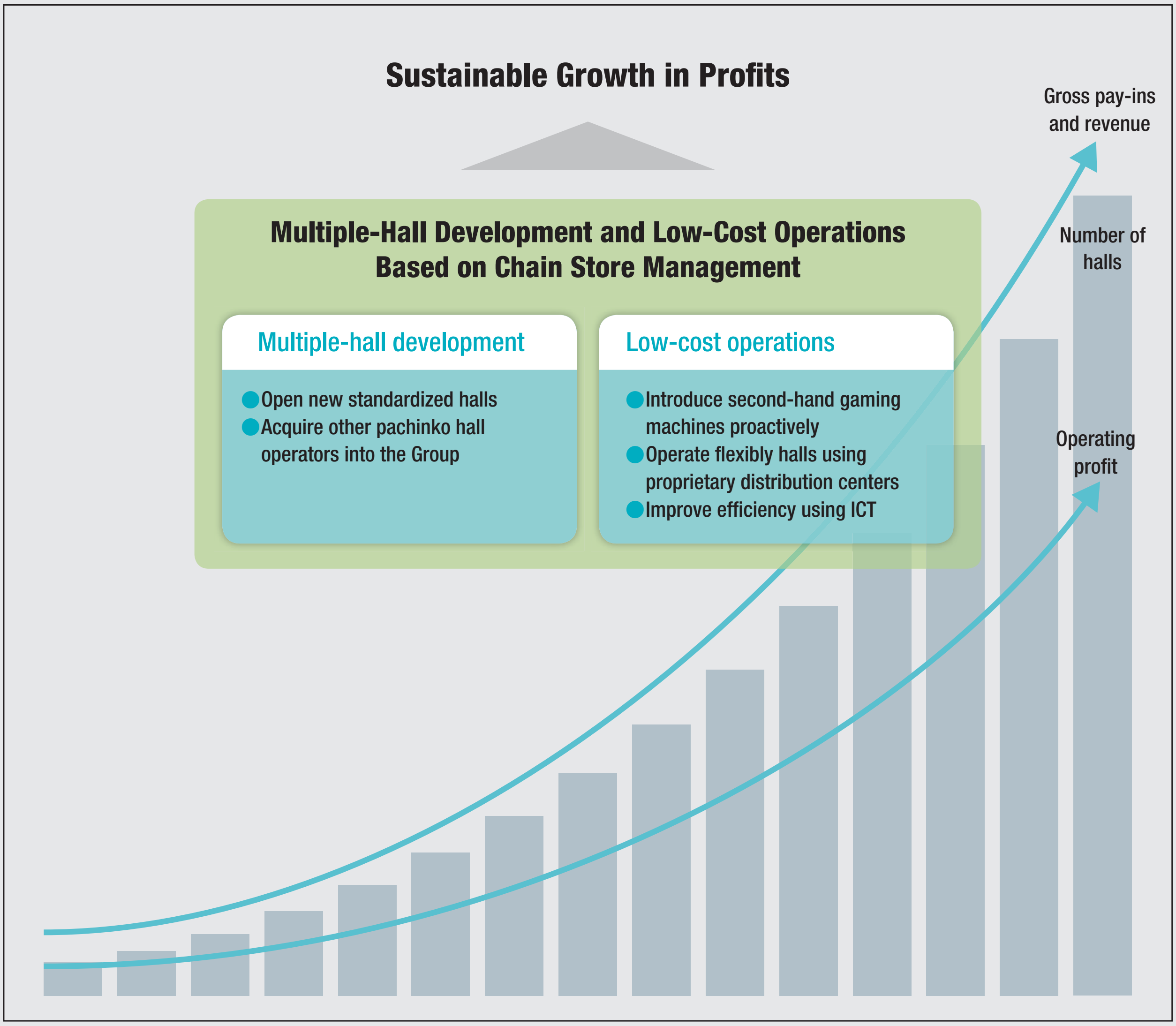
The Group will maximize leverage of its position as the pachinko industry's leading company in terms of the number of pachinko halls and will steadily accumulate profits over the long term through multiple-hall development and low cost operations.

A Pioneer in the Pachinko Industry

One of the Group's management policies is implementing chain store management. Chain store theory is to maximize profit with low cost operation, which means that greater the expansion in the number of halls, the more profit and the greater ratio of return to customers. Dynam, our wholly-owned subsidiary, was the pioneer which introduced the chain store management theory to the industry.

Multiple-Hall Development and Low-Cost Operations are the Source of Profit

A feature of the Group's chain store management is multiple-hall development and low cost operations centered on low playing cost games. Devising low cost measures and the expertise needed from store openings to store management are crucial in promoting low playing cost games. By reaping the benefits of the economies of scale through multi-hall development when purchasing game machines and general prizes, the Group has positioned itself in a strong, advantageous position to develop the pachinko hall operation business. Moving forward, we will continue to leverage our status as the pachinko industry's leading company in terms of the number of pachinko halls and steadily accumulated profits over the long term by implementing chain store management.



Multiple-hall development

The Group is implementing multiple-hall development based on its theory of chain store operations by opening new standardized halls and acquiring 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.

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 hall specifications

The Group standardizes the interior layout and installation number of gaming machines of the halls. This has enabled the Group to cut down initial investment costs 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 leased land to avoid excessive investment in land purchases, so as to scrap the halls easily if market conditions change in the future.

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. As an example, the Company acquired Yume Corporation into the Group through share exchange on 1 November 2015.

Low-cost operations

By reaping the benefits of the economies of scale, 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.

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. The Group has established 16 distribution centers throughout Japan, each of which covers the logistical needs and facilitates the sharing of gaming machines among 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.

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 as well as saving time and effort for customers. 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.

All employees work in unison to promoting CSR activities in line with our corporate philosophy.

Group CSR Philosophy

The Group engages in CSR with the idea of achieving sustainable growth based on its corporate philosophy entailing "a centurial commitment to building trust and encouraging dreams." We believe promoting CSR is the embodiment of this 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 it 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 Group maintains a long-term commitment to building trust and encouraging dreams.

Five Management Policies

- Principle of Customers First
- Training of Human Resources
- Information Disclosure
- Social Contribution
- Chain Store Management

Three Principles of Actions

1. The Group complies with laws and regulations and rules, and deals with people respectfully.
2. The Group takes decisive actions and values team work.
3. The Group confirms the actual situation on site, and presents it using numerical expressions.

Charter of Corporate Behavior

The reason for existence of a company is to achieve sustainable growth in line with the expectations of stakeholders, including shareholders, managers, employees, partners, financial institutions and customers, and to grow to a certain scale and level of reliability that enable it to contribute to society. All employees of the Group share this principle.
The Group names the stakeholders described above "trusted associates." We are committed to strengthening our relationship with these partners through our business activities, so that we can grow based on a far-reaching vision. As it grows, the Group will consistently fulfill the roles expected of it by each stakeholder, to ensure that the trust from the stakeholder also grows.
Trust, however, is fragile, and even a momentary lapse of focus can damage it forever. To ensure that it can continue to conduct its business without compromising that trust, the Group has adopted new internal control systems to improve its operations. These systems also clarify and eliminate factors that have the potential to lead to misconduct or violations of laws and regulations.
All of the Group employees, including those that work in the field, constantly take initiatives with full knowledge that such actions help to improve their operations. Through these initiatives, each member strongly believes that the Group can achieve stronger operating results and contribute to society more effectively.

Group CSR Concept

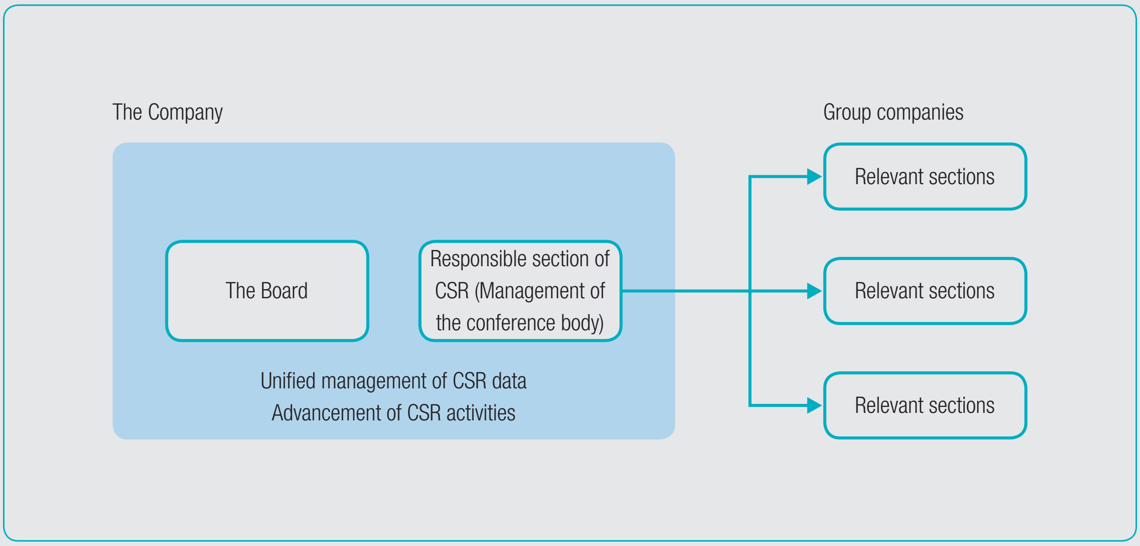
We will contribute to the development of local communities.

1. For our Customers	We prioritize our customers by constantly providing products and services from the customers' viewpoint.
2. Communities	We contribute to the development of regional society by seeking to collaborate and work together with local communities. We aim to be a company that takes on social issues and is needed by communities and society.
3. Organizational Governance	As an organization, we make every effort to gather and record accurate information, disclose this information, and engage in transparent and fair management.
4. Human Rights	For employment and remuneration, we respect basic human rights and do not discriminate in terms of nationality, gender, faith, beliefs, or physical appearance, or in any other terms unrelated to the abilities and motivation of each individual. Personnel evaluations are conducted based on overall assessment of each employee's abilities, motivation, personality, awareness of compliance, and contribution to performance.
5. Labor Practices	We nurture our employees to harness the collective energy of our personnel. To sustain corporate activities, we focus our efforts on maintaining and improving a proper work environment in accordance with laws and regulations, so that our employees can work in safe and healthy environments.
6. Environment	We aim to coexist with regional societies by proactively tackling environmental problems.
7. Fair Business Practices	We build relationships with our business partners on an equal basis that are constructive and sound from legal, social and ethical standpoints to develop economically with our business partners well into the future.

The Group CSR Concept prescribes guidelines we should adopt when we conduct CSR activities.

System for Group CSR Advancement

In accordance with our basic CSR policy, and under the leadership of the Board of Directors, the highest management decision-making entity, all employees work in unison to advance CSR activities across the entire Group. In the conference mainly run by the responsible section of CSR, we discuss and examine CSR activities for the Group's contribution to the sustainable development of society along with our trusted associates.



Naming our stakeholders "trusted associates," we build relationships by disclosing information and engaging in dialogue.

Two-Way Communications

The Group names its "stakeholders," such as customers, local communities, business partners, employees, shareholders and investors, as "trusted associates". We are strongly aware of the importance of building relationships based on trust. Since before its listing in 2012, the Group has placed an emphasis on communication and the disclosure of information referred to in the management policy. This is because we believe the sustainable development of the Group depends on listening to and understanding the opinions and expectations of our many trusted associates while engaging in business activities.

While properly disclosing information, the Group uses discussions with stakeholders as an opportunity to examine whether its business activities meet their demands and expectations, and feeds back this information in business activities.

Main Initiatives

- Based on our people-focused business policy, we internally share the requests and opinions of our customers received through face-to-face interactions with them and our consultation desk. This information is reflected in how we create pachinko halls.

Methods of Engagement

- Face-to-face interaction with customers at pachinko halls
- Customer consultation desk
- Meet-the-manager events for customers

DYJH

Main Initiatives

- We cooperate, participate and interact as a member of regional societies when asked by local residents to help with events to revitalize the region.
- We continue to offer disaster relief in areas damaged by earthquakes.
- We support sports events by co-sponsoring figure skating and squash.

Methods of Engagement

- Participation to community events
- Volunteer activities of employees
- Support for disaster sites
- Support for sports activities

Communication Tools with Trusted Associates

The Group is always looking for ways to improve its communication tools with all trusted associates to further their understanding of our operations and business strategies.

Annual Report

In addition to financial information, our annual report features non-financial information about our strategies, social initiatives and environmental efforts. We publish comprehensive information that pertains to the medium- and long-term corporate value of the Group.

CSR Report

Our CSR report discusses our wide-ranging CSR activities for trusted associates, and engagements for the purpose of enhancing corporate value over the longer term.

Company brochure

We publish a corporate brochure about Dynam, which manages pachinko halls, the core business of the Group. Centered on our corporate philosophy, "a centurial commitment to building trust and encouraging dreams," the brochure introduces the company by highlighting its strengths in management, business development, personnel training, and social contributions.

Group

Methods of Engagement

- Meetings for each business proposal
- Meetings about joint development (game machines, general prizes)
- Meetings to periodically exchange information
- Business partner briefings

Main Initiatives

- We will strengthen relationships with our business partners through the joint development of game machines and general prizes. We aim to enhance the value chain with our business partners by increasing the value of our pachinko halls as spaces for entertainment.

Methods of Engagement

- Intranet, in-house newsletter
- Training and briefings for employees
- Individual interviews, self-assessments
- Meetings between management and employee (union)
- Corporate ethics consultation
- Worksite meetings
- Employee surveys

Main Initiatives

- To enhance work environments, we are examining the best way to improve our workplaces by taking to heart the issues raised by our employees through surveys and meeting between management and employee.
- We are taking practical steps to update our systems beyond what is required by law, focusing on support for child raising and empowering women in the workplace.

Methods of Engagement

- Annual General Meeting
- Results briefings
- IR meetings
- Tours of our pachinko halls and hands-on events
- Surveys

Main Initiatives

- We politely explain the Group's management policies and strategies at results briefings and individual IR meetings. We make every effort to satisfactorily answer any questions attendees may have.
- For the operational front lines, we give tours and hands-on events at our pachinko halls to further attendees' understanding of our strengths and competitive advantages.

Trusted Associates

In disclosing this annual report, the Group refers to customers, local communities, business partners, employees, and shareholders and investors as "trusted associates," but this does not limit who may be regarded as a trusted associate. Our basic stance is that the phrase is a broad concept that includes everybody (financial institutions, etc.) referred to in our corporate philosophy and code of conduct, and this in turn entails us facing all involved stakeholders.

Booklet (DYNAM Group Newsletter)

We prepare this information booklet for landowners and local residents. It includes a greeting from executive management, special feature about a region, a report on social contribution activities, financial information, and other topics of interest about the Group.

Company magazine

This in-house newsletter is distributed to employees to facilitate communications among employees and share information about companywide policies, internal activities and excellent case studies. By bringing together employees and enhancing loyalty, the newsletter fosters a sense of unity among employees.

Corporate website

The Group's website contains information we must publish as a listed company, in addition to comprehensive information to supplement our annual report and CSR report.

Process for Identifying and Deciding Priority CSR Topics

We identify topics centered on people and clarify the course of initiatives, while referring to international guidelines and the opinions of trusted associates.

While considering the viewpoints of trusted associates, we have categorized each topic we think to be vital to the sustainable development of the Group: E stands for the environment, S stands for society and G stands for governance. Our actual CSR activities are aligned with a category, clarifying the aims of specific initiatives.

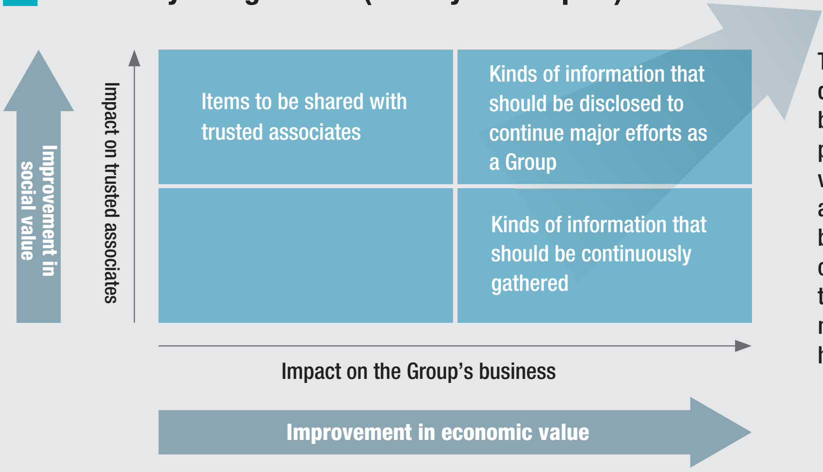
References Made to International Guidelines and Objectives

The Group has narrowed down its CSR categories while referring to guidelines set by the Hong Kong Stock Exchange for disclosing ESG information and international guidelines related to CSR.

Reference Guidelines

Appendix 27 to the Listing Rules	**Appendix 27 to the Listing Rule** Appendix 27 is an attachment to the rules for companies listed on the Hong Kong Stock Exchange. It contains guidelines for the disclosure of ESG information.
GRI	**Global Reporting Initiative (G4)** Global Reporting Initiative (G4) is an international guideline for the disclosure of ESG information created by the Global Reporting Initiative, a non-profit organization whose mission is to set international standards related to sustainability.
ISO26000	**ISO 26000** ISO 26000 is the Guidance for Social Responsibility issued by the International Organization for Standardization (ISO).
SDGs	New international goals have been created to address social issues, including Sustainable Development Goals by the United Nations in 2015 and the Paris Agreement at COP21. The Group views this global trend as the universal social request that should be recognized in discussing the Group's CSR. We refer to these items and categories of needs in our process for deciding our main CSR topics.

Materiality Designations (Priority CSR Topics)



The Group understands that its sustainable development depends on the achievement of both improvement in economic value as a for-profit company and improvement in social value through initiatives for all trusted associates, including customers, regional society, business partners and employees. We decide our CSR topics in terms of their impact on trusted associates and Group operations. Our main CSR topics are those we believe will have a strong impact on both.

Our Main CSR Topics and Initiatives

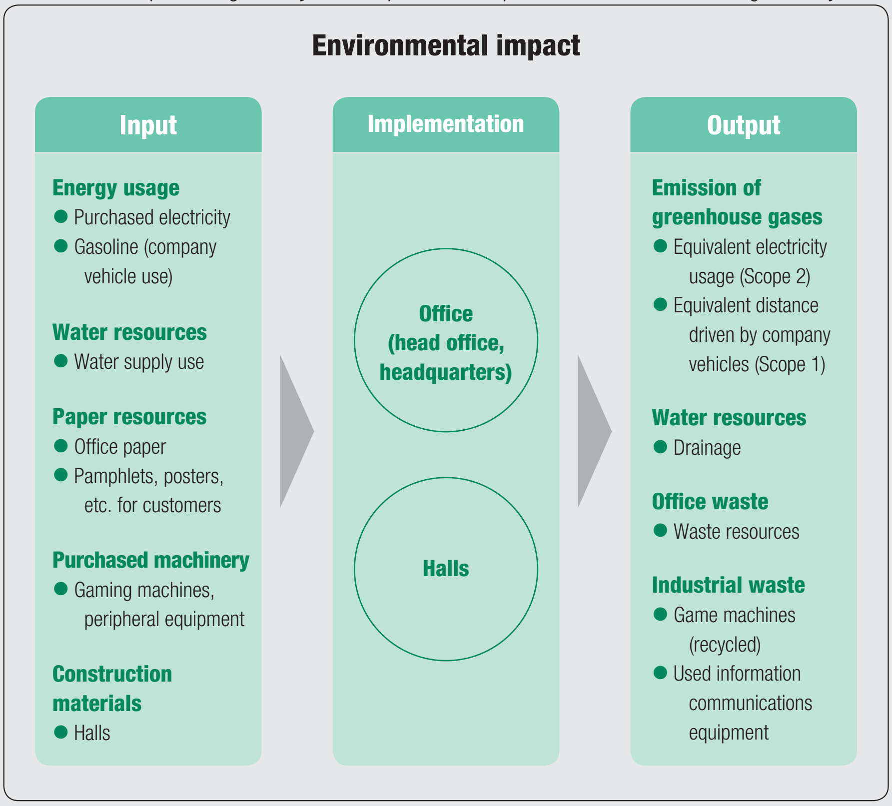
CSR categories		Main CSR topics (Materiality)	Aims of specific initiatives
E Environmental	**People and Environment**	**Climate change and recycling society** **Consideration for the regional environment**	◎ Appropriate management of energy usage ◎ Proper disposal of waste to realize a recycling society ◎ Consideration for the local environment
S Social	**People and Customers**	**Improvement of customer satisfaction** **Provision of the place for gaming with enjoyment and safety**	◎ Aiming to make pachinko gaming as everyday entertainment
	People and Communities	**Pachinko, living with communities**	◎ Contribution to society through our core business ◎ Local infrastructure
	People and Business Partners	**Supply Chain Management** **Development of value chain**	◎ Practice of supply chain management ◎ Creation of Value in Business Partnerships
	People and Employees	**Diversity and development of human resources** **Pleasant workplace for employees**	◎ Fostering of a corporate culture where diverse people can thrive ◎ Enhancement of human resources' skills through training ◎ Creation of a business environment that facilitates work
	People and Shareholders, Investors	**Information disclosure and transparency of management** **Return to shareholders**	◎ High transparent communication through information disclosure ◎ Meeting shareholders' expectations through return to shareholders
G Governance	**Corporate Governance**	**Strengthening of Group governance for sustainable development**	Refer to Corporate Governance Report See page 42–47 for details. Internal Control, Risk Management, Compliance

With the understanding that global environmental problems are issues that affect the entire human race, we aim to reduce the environmental burden of our core operations through efforts to preserve the environment.

In 2015, COP21 was held in Paris, and an agreement was reached to set international targets for combating global warming. Companies are expected to take appropriate action because fulfilling their corporate responsibilities for the environment will help ensure their own futures. The Group aims to reduce the environmental burden of its core operations through putting its efforts on environmental conservation.

Group operations and the environment

The Group has an impact on the global environment through the operation of its pachinko halls, its core business. Below is a summary of environmental impact recognized by the Group and the scope of its environmental management system.



Environmental Management (Main Initiatives)

Proper Management of energy usage
- Electric power saving
- Use eco-friendly cars

Water-saving measures
- Installation of water-saving valves
- Installation of water-saving toilets

Green IT promotion
- Paperless movement of internal documents

Framework for not generating trash
- Effective secondary and tertiary uses of used game machines
- Wooden-frame halls

Proper disposal of waste materials
- Recycle of game machines
- Obtain certification for proper disposal conducted by subcontractors of used information communications equipment

Disclosure of information about the environment

We disclose the amount of electricity used and its CO2 equivalent based on the recognition that electricity usage indirectly leads to the emission of greenhouse gases (Scope 2). We also report on our activities to reduce environmental impact by appropriately managing energy usage, properly disposing of waste, and paying attention to the local environment.

Total power consumption **383** mill. kWh※1

CO_2 emissions **198** thou. t-CO_2※2

For the year ended 31 March 2017

※1,2 Calculated based on the Group in Japan.

The total power consumption and CO_2 emissions are calculated in accordance with the prescribed aggregation method for environmental reporting to the Ministry of Environment in Japan.

Direction of Specific Measure

Appropriate management of energy usage

With the aim of contributing as much as possible to the realization of a sustainable society and in recognition of its important role in environmental conservation, the Group appropriately manages energy usage at all of its facilities, including the 446 pachinko halls across Japan and its head office.

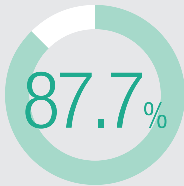
Use of state-of-the-art equipment and systems to reduce electricity usage

LED lighting has been installed inside 445 halls, representing almost all of the Group's halls. Energy efficient air-conditioning systems have been installed in 391 halls, or 87.7% of the total. The game machines and peripheral equipment procured by the Group all switch to electricity saving mode when they are not in use. A team of specialists in charge of managing pachinko hall equipment has created guidelines for operating hall systems and equipment to raise employees' awareness of saving electricity.

Halls with LED lighting※3

Halls with energy-efficient air conditioning※4

As of 31 March 2017



※3, 4 Calculated based on three pachinko hall operators in the Group (Dynam, Yume Corporation, and Cabin Plaza)

Direction of Specific Measure

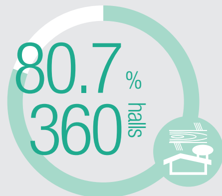
Proper disposal of waste to realize a recycling society

To contribute to the realization of a recycling society, we have ongoing initiatives in place to reduce environmental impact as much as possible by limiting the amount of natural resources we use and ensuring waste to be properly disposed after making every effort to minimize waste volume.

Recyclable pachinko halls built out of wood and proper disposal of waste materials

Dynam's wooden pachinko halls emit less CO_2 than steel frame structures in terms of the material procured and during construction, and have the added benefit of reducing industrial waste when torn down. The Group has created in-house rules for the disposal of waste in compliance with laws and regulations, and has a framework for properly disposing game machines. Parts and materials that can be reused are handled by the Yugiki Recycle Kyokai, an industry organization for the proper end-of-life disposal of wastes.

Pachinko hall with wood frame construction
As of 31 March 2017※5



※5 Calculated based on three pachinko hall operators in the Group (Dynam, Yume Corporation, and Cabin Plaza)

Direction of Specific Measure

Consideration for the local environment

As a member of local communities, the Group pays special consideration to the environment around its pachinko halls where local residents live, while ensuring compliance with laws and regulations.

Highly rated through third party evaluation for environmental conservation

Dynam is evaluated and rated by the Pachinko-Trusty Board (PTB) every year, and is monitored by third-party organizations for compliance with laws and regulations as a pachinko hall operator. PTB is an independent industry organization consisting of leaders and experts dedicated to improving the social stature of companies that operate pachinko halls. In 2016, Dynam was highly rated for evaluation categories including consideration of local communities as social requirements, methods for disposing waste and environmental and energy-saving measures, showing that its management framework is a model-company level.

Aiming to create value to make pachinko gaming an everyday entertainment that is fun, pleasant and safe for everyone

Based on its customer(s)-first policy, the Group takes action with customers foremost on our minds, providing products and services from the standpoint of customers. In operating pachinko halls, we create valuable experiences for our customers who play games on our game machines and through other services that bring them joy and comfort. We understand that continuing this approach steadily leads to the long-term creation of value. As local infrastructure, we will create value for our customers with the aim of providing everyday entertainment that anyone can enjoy in a comfortable environment.

Direction of Specific Measure

Aiming to Make Pachinko gaming as Everyday Entertainment

The Group strives to create an environment that is safe and relaxing for playing pachinko by improving constantly the recreational space and through customer satisfaction initiatives and employee training which is focused on people.

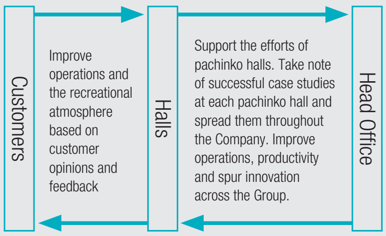
Operations with a Focus on People

Everyday, our employees working in the Group's pachinko halls always put their effort in improving the operations by focusing on people. Our employees put their heads together and discuss the types of customer interactions and services that we should provide in terms of prices, quality and comfort, which are put into practice on the operational front lines.

Out of these efforts, the ones likely to bring the best outcomes are sharing among all pachinko halls through briefing meetings. As other companies in the sector are merged into the Group, the mixing of personnel will bring new ideas we previously did not have, thereby enhancing synergies and creating value across the Group as a whole.

Operational front line and head office working in unison

Our operations with a focus on people go beyond the operational front lines. The head office works in unison with the operational front lines to help ensure their effectiveness through a variety of initiatives. For example, the head office assists the operational front lines by collaborating with pachinko halls to share successful case studies over the company intranet, while also holding contests, lectures and promotional campaigns.



Training for interacting with customers

Employees are trained on how to interact with customers by external experts and other employees who have extensive experience and certain qualifications, to improve the quality of customer interactions with a focus on people while reviewing daily operations objectively. In addition to acquiring knowledge, our training programs are combined with on-the-job training that emphasizes the practical application of learning outcomes on the operational front lines.

Customer service desk

The opinions of our customers are essential to improving our services from the standpoint of customers. The Group learns about the diverse opinions and requests of our customers as employees at each pachinko hall interact directly with customers on a daily basis, and also through our customer service desk, telephone calls, letters and emails. All of this information is used to improve customer satisfaction.

Sharing Information within the Group

The best case studies are highlighted and shared at periodically held briefing meetings. These wide-ranging case studies serve as opportunities to raise awareness of discovering ways of creating new value, including through measures from a woman's point of view, promotions involving customers, and stronger ties with customers through prizes.

Promotion of low playing cost games

One of our initiatives aiming for everyday entertainment is promotion of low playing cost games. Low playing cost games are designed to entertain customers without imposing a significant cost burden on them. We have been promoting this low playing cost games ahead of other pachinko companies.

Proportion of Halls Featuring Low Playing Cost Machines※1

99.3% As at 31 March 2017

Proportion of Low Playing Cost Halls to Total Number of Halls※2

59.4% As at 31 March 2017

Proportion of Low Playing Cost Machines to Total Number of Machines※3

70.7% As at 31 March 2017

※1,2,3 Calculated based on three pachinko hall operators of the Group (Dynam, Yume Corporation, and Cabin Plaza)

The national average proportion of low playing cost machines to total number of machines was 46.4% as of 31 March 2017. On the other hand, the Group has developed this to 70.7% as of 31 March 2017. The proportion of halls featuring low playing cost machines is 99.3% in the Group.

Improving and enhancing the recreational space of our pachinko halls

We aim to increase the value of our pachinko halls as recreational spaces, improving them in both soft and hard aspects, so customers can enjoy playing games in the comfortable environment of our pachinko halls.

Examples of Main Measures

Universally designed halls	Promoting universally designed halls for senior citizens and people with disabilities in our all halls.
A clean environment due to the air purification systems	Our pachinko halls have air purification systems that neutralize 99% of viruses and bacteria. The excellent air quality is one trait of our clean pachinko halls that customers can enjoy.

Creation of Framework for Playing Pachinko in a Safe and Secured Environment

For anyone to be able to easily enjoy playing pachinko as everyday entertainment, it is essential that we provide spaces that are always safe and secured for customers to play pachinko. The Group believes that assessing and improving this framework is of the utmost importance.

Measures against dependence problem

Following enactment of the Act on Promoting Development of Areas for Specified Integrated Resort Facilities (Integrated Resort Promotion Act) in December 26 2016, the Japanese government held a Cabinet meeting on measures against gambling addiction and started full-scale examination. The Group has faced this social problem of “dependence problem” and is advancing creation of environments in which customers can enjoy playing pachinko in safety and security.

● Resolving the problem of children left unattended in parked vehicles

Our employees patrol our parking lots so as to warn customers about leaving their children alone in their vehicles. We also entails posters, streamers, and public announcements in our pachinko halls. In the fiscal year ended 31 March 2017, there were no incidents of children being left in their parent’s vehicles while they played pachinko in our halls.

● Preparations for a medical emergency and evacuation guides for major natural disasters

All of our pachinko halls have AED equipment. We also conduct drills that simulate what to do in medical emergencies until an ambulance arrives. Also, learning from the Great East Japan Earthquake in March 2011, we have created evacuation guidelines in the event of a major natural disaster, and we periodically hold evacuation drills.

While growing together as local infrastructure, we aim to have a mutually beneficial relationship with communities while advocating the slogan of "pachinko, living with communities"

We have embraced "pachinko, living with communities" as our slogan for depicting our corporate stance on the operation of pachinko halls. This slogan comes from the belief that without development of towns there can be no development of the Group. As local infrastructure, we have taken initiatives to provide places for recreation in communities, reinventing pachinko as a form of everyday entertainment that anyone can enjoy in safety. Growing together as local infrastructure, we aim to have a mutually beneficial relationship with communities as we give back to society through our core business.

Direction of Specific Measures

Contribution to Society Through Our Core Business

Through the operation of pachinko halls, our core business, the Group creates social value for each of the community as an Everyday Form of Entertainment and contributes to local people by promotion of employment, etc.

An Everyday Form of Entertainment that Communities Need

The Group advocates "pachinko, living with communities" while operating pachinko halls as our core business. Our aim is to offer everyday entertainment needed by communities, while working to solve social issues through our core business.

Balanced Development of Local Communities

The Group has adopted a suburban strategy as a facet of its chain store management practices, and opens halls throughout Japan without showing a preference for a particular region.

Initiatives to Promote Self-Sufficiency Among Senior Citizens

To cope with the rapid aging of the population across Japan, as an operator of pachinko halls, we have put in motion initiatives responding to the needs of local communities from the perspective of welfare for senior citizens.

Contributing to Local Employment

By opening halls throughout Japan without showing a preference for a particular region, the Group is able to contribute to creating employment in various communities.

Employees Work Only in Designated Regions

The Group has put in place a system of hiring employees to work at pachinko halls in only designated regions.

Extending Employment of Senior Citizens

With the aim of having senior citizens to lead their fulfilling lives while participating in society, in August 2016 we raised the maximum hiring age for Group employees from 65 to 70, and increased the mandatory retirement age to 75 years old. Our senior citizen employees work in our pachinko halls, parking lots and administrative positions.

Direction of Specific Measures

Local Infrastructure

The Group's pachinko halls across Japan play an ongoing role as essential local infrastructure in the development of local communities by providing human and economic assistance and we aim to continue such activities.

Responding to Natural Disasters and Supporting Reconstruction in Affected Areas

Having experienced many natural disasters, including the Hanshin Awaji Great Earthquake, Great East Japan Earthquake, and Kumamoto Earthquake, the Group takes action to rapidly provide assistance soon after a natural disaster strikes, centered on the provision of disaster relief materials, volunteer activities, and monetary donations.

OUR RESPONSE TO THE GREAT EAST JAPAN EARTHQUAKE

● Quick Reopening of Halls in Disaster Areas

Approximately seven months after the earthquake, we fully restored operations at the pachinko halls that had been temporarily suspended due to the earthquake addressing the needs of local residents, reaffirming their important role as gathering places for people and beacons of hope for communities.

● Assistance for Reconstruction of Affected Areas

Reconstruction assistance conducted right after the earthquake still continues, including through assistance with emergency housing.

● Collaboration with Sakura Line 311, a Specified Non-profit Corporation

Agreeing with the aims of the activity held by Sakura Line 311, the Group volunteers to help with tree-planting events held twice a year in the spring and autumn.
Sakura Line 311 aims to plant cherry trees in Rikuzentakata City, Iwate Prefecture, with one every 10 meters along the line marking the crest of the tsunami that struck roughly 170 kilometers of coastline after the Great East Japan Earthquake on 11 March 2011. This avenue of trees shows to future generations of people that they should evacuate above the line in the event of another tsunami.
As a member of the community, we will watch over these cherry trees so that we will not forget the lessons learnt from the Great East Japan Earthquake.

OUR RESPONSE TO THE KUMAMOTO EARTHQUAKE AND THE TOTTORI EARTHQUAKE

Soon after the Kumamoto Earthquake and the Tottori Earth-quake, the Group mobilized to assist affected areas by providing parking spaces, temporary toilets, water and food, and began accepting monetary donations. Assistance continues, including through collection of monetary donations.

Building Relationships of Trust Through Grassroots Activities

We emphasize collaboration and coordination with local communities through ongoing grassroots activities that help the regions, while communicating well with local residents.

● Grassroots Initiatives in Each Community

We help coordinate the cleaning of areas around our pachinko halls across the country, volunteer to manage local festivals and fireworks shows, donate gifts to social welfare organizations, and help with blood donation drives by providing space in our parking lots.

Support for Sports Activities

The Group supports sports activities as a part of its efforts to contribute to the community. We are co-sponsor of Squash, Figure Skating, and Surfing events.

We aim to create value from the perspective of our customers by improving the value chain through partnerships and fair transactions with our business partners.

The Group procures from external business partners items required to operate pachinko halls, such as game machines, peripheral equipment and general prizes. Going beyond the internal organizations of the Group, the operation of pachinko halls is made possible through a comprehensive effort including external business partners.
With the intention of providing everyday entertainment to our customers, the Group aims to create value from the customer's point of view by improving its value chain along with business partners through partnerships and fair transactions that comply with laws and regulations.

Direction of Specific Measures

Practice of Supply Chain Management

The procurement of items, such as game machines and general prizes, are important transactions that directly affect business performance. When assessing the impact of the Group's business activities on the environment and society, we believe it is important to take into account indirect effects, including the activities of our business partners, and make an effort to avoid or minimize unintentional negative outcomes. While following international guidelines as well as domestic laws and regulations concerning human rights, labor and the environment, the Group intends to constantly improve supply chain management by complying strictly with laws and regulations, including with business partners, and following an ethical code of conduct.

Fair Transactions with Business Partners

Major Business Partners of the Group

The Group mainly conducts business transactions with suppliers of the game machines and general prizes used at its pachinko halls.
The Group buys game machines from 61 game machine manufacturers, and out of those, transactions with top 5 game machine manufacturers account for 49.0% of the consideration of the total transactions. For general prizes, the Group deals with 81 prize suppliers, and out of those, transactions with top 5 prize suppliers account for 81.2% of the total number of prize makers. Out of the top 5 game machine manufacturers the Group does business with, 2 companies are listed in Japan. All of the above-mentioned business partners are Japanese companies.

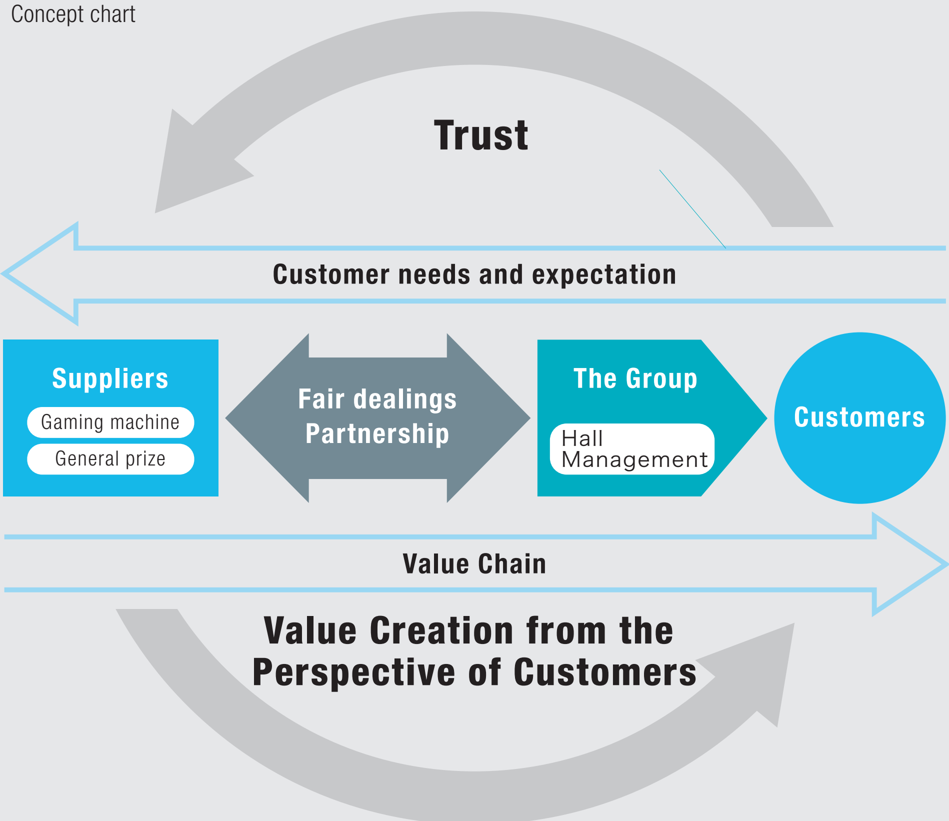
Conducting Sound Transactions in Compliance with Laws

Before entering into an agreement with a new business partner, the Legal Division conducts a compliance check of the business partner and looks for any problems in its operations and history of business transactions. The legitimacy of the basic agreement with the business partner is checked, and documentation with our corporate code of conduct is given to the business partners after contracts are signed. We also share our corporate philosophy with the new supplier.
From an international standpoint, the Group is expected to address social issues including regional environmental pollution and the inhumane treatment of labor, such as coerced and child labor. The Group is fully aware of these international expectations and actions prohibited by law in Japan, and will never engage in a transaction that violates corporate ethics. We have not encountered any violations of the law, including our business partners in Japan.
To maintain sound operations, we will continue to manage our supply chain by always engaging in sound transactions in full compliance with laws and regulations.

Direction of Specific Measure

Creation of Value in Business Partnerships

Concept chart



Joint Development with Business Partners

● Joint Development of Game Machines that Satisfy Customer Needs

The Group designs its own private brand game machines based on its business policy of providing everyday entertainment. Our private brand machines offer a simple and easy-to-grasp artistic staging and do not require complicated techniques to play. Based on the massive volume of gameplay data gathered at our pachinko halls, we develop game machines to 100% original specifications with the game machine manufacturers, and roll them out in our halls.

So far, we have developed 56 game machines in partnership with game machine manufacturers.

● Joint Development of General Prizes

We strive to have quality general prizes ready as part of our aim to provide everyday entertainment. We endeavor to offer services that bring our customers happiness by including popular products and special prizes for seasonal events. Our prize planning entails taking advantage of the planning capabilities of our suppliers while incorporating information about customer preferences gathered at our pachinko halls.

So far, we have developed 17 prizes in partnership with prize suppliers.

We strengthen our Human Resources training, an Essential Component of Sustainable Growth, to Enhance their Skills and Abilities.

We believe sustainable growth hinges on our efforts to raise the level of our human capital with the aim of creating value focused on people, so we seek to enhance human resources through the development of each and every employee's skills, abilities, motivation, and experience in the organization. Our employees are the source of our competitive advantage.
We make every effort to maintain and improve proper work environments in accordance with laws and regulations, so our employees can work in healthy and safe conditions.

Direction of Specific Measures

Enhancement of Human Resources' Skills Through Training

The Group has built an innovative training system through years of experience, a core competence that cannot be easily duplicated by rivals.

Strengthening Human Resources with Ongoing Hiring of College Graduates

We have constantly hired new graduates, mainly college graduates as candidates for senior positions, every year since 1989.
Some of the employees that began their careers here have ascended to more senior position and become senior department heads and managers of business sites. Moreover, 1 employee has become directors of Dynam.

Three Pillars of Human Resource Training

The Group's human resource training system revolved around three major pillars comprising education & training, on-the-job training, and the Jinsei Daigaku (University of Life) program.
By strengthening our human resources though their training which is unique to the Group, we aim to create a driving force for value creation and sustainable growth.

Personnel Development Power

Human Resource Development

Education and Training	On-the-Job Training	Jinsei Daigaku (University of Life) Program
Acquire business knowledge (trigger for growth)	Improve business execution capability (ability to perform)	Pass along corporate culture and develop as a person (growth as an individual)

Strengthen development of human resource　Improve productivity　Cultivate future leaders

● Education and Training

We have developed our own unique training program, for employees to acquire business knowledge.
Many senior employees attend seminars held by Pegasus Club, the chain store research organization in Japan.
Also, we offer future leaders program for candidates.

● On-the-Job Training

Employees learn skills while at work through on-the-job training.
We have a framework in place for employees to set their own objectives for self-improvement, and use a work certification system that clarifies the knowledge, experience and skills necessary for each work position.

● Jinsei Daigaku

We conduct Jinsei Daigaku (University of Life) program for all employees after they have been with the Group for certain number of years. While reaffirming our corporate philosophy and vision, employees reflect their own career plans. Through this process, our corporate culture, nurtured over many years, is passed down and instilled in each and every employee.

Direction of Specific Measures

Fostering of a Corporate Culture where Diverse People can Thrive

The Group respects diversity in human resources, and believes the creation of a corporate culture where diverse people can thrive is a driving force behind gains in corporate value.

Equal Employment Opportunities and Employment of People with Disabilities

As of 31 March 2017, the Group had a total of 17,809 employees, representing a diverse workforce with regard to nationality, gender, age and disability. Each of our employees sets their own objectives, against which they are fairly evaluated for promotions and raises, under an open and fair human resources system.

The Group offers employment opportunities for people with disabilities. We employ people with disabilities, mainly through Business Partners. As of 31 March 2017, there are 218 employees with disabilities working in the Group.

Number of employees with disabilities※1

As of 31 March 2017

218 employees

※1 Calculated based on the Group in Japan

Supporting Female Employees in the Workplace

The Group believes supporting women in the workplace will lead to stronger competitiveness and higher corporate value. We aim to increase the ratio of women for recruitment of new college graduate to around 40%.

● Enhancing Support Systems

Our support system for female employees entails a mentoring system that supports women from various angles, including mental preparation, by pairing a senior female employee (i.e. a mentor) with a newly hired female employee (i.e. a mentee). The mentor and mentee discuss topics that may be difficult to talk to managers. Female employees can also find support from our internal social network site, email, and get-together events held in each region. Both male and female employees who are raising children can apply for shorter work hours, time off for raising children and are discouraged from working overtime and late-night hours.

● Cultivating Women for Senior Positions and Fulfilling Careers and Private Lifestyles

Our affiliate Dynam implements project which aims to prepare women as candidates for management positions by inviting selected female employees to learn the skills and tasks required for management positions, providing opportunities to develop advanced problem-solving skills and build personal relationships through networking. Yume Corporation takes the initiative to discuss issues related to balancing family and work life, childbirth and child-rearing with the employees. Employees think of their own ways to lead to fulfilling careers and private lifestyles.

● Commitment to the Ministry of Health, Labor and Welfare Positive Actions

Dynam and Yume Corporation have committed to four objectives based on the Ministry of Health, Labor and Welfare's positive action plan for advancing women in the workplace. These four objectives are: improve workplace conditions, expand the portion of employment of women, help women remain employed, and increase the no. of women working for management positions. We proactively take actions on our own initiative to fix any underlying employment discrepancies between men and women.

Ratio of female employees (Numbers)※3

As of 31 March 2017

53.9% (9,605 employees)

※3 Calculated based on the Group

Ratio of women in new college graduate hires (Numbers)※2

As of 31 March 2017

30.5% (26 employees)

※2 Calculated based on Dynam

● Compliance with Laws Regarding Women in the Workplace, Setting Objectives

In 2016, we formulated the action plan below based on the Act of Promotion of Women's Participation and Advancement in the Workplace (hereinafter, the Women's Participation and Advancement Act).

1. Period: From 1 March 2016 to 31 March 2018
2. Action Plan
   (1) Objective: Increase ratio of female employees to at least 40% of the no. of full-time employees
   (2) Objective: Modify the work environment so that both male and female employees can easily take advantage of existing work-life balance systems
   (3) Objective: Train female employees with the goal of promoting them to management positions

Direction of Specific Measures

Creation of a Business Environment that Facilitates Work

We intend to create a work environment where anyone can work without hindrance, believing it necessary to improve employee satisfaction and help them maintain a healthy body and mind to invigorate the corporate organization and leverage the abilities of every employee fully.

Work-Life Balance and Optimizing Work Styles

We take a flexible approach to accommodating the life stages and family structures of each employee, to leverage their abilities as human resources fully. The Group aims to be a place where employees, without regard to gender, can find a balance between work and their families, including marriage, childbirth, child-rearing and caring for their parents. Through various systems and work environment updates, we encourage our employees to strike an appropriate work-life balance.

Ratio of employees returning to work after childcare leave ※4

For the year ended 31 March 2017

94.7%

※4 Calculated based on the Group in Japan

Action Plan for Act on Advancement of Measures to Support Raising Next-Generation Children

Based on the Act on Advancement of Measures to Support Raising Next-Generation Children, which was enacted in 2015, the Group has formulated and implemented the following action plan.

Action Plan for Act on Advancement of Measures to Support Raising Next-Generation Children (1 February 2015–31 March 2017)

(1) Objective: Encourage employees to take maternity and paternity leave for raising children after childbirth.

(2) Objective: Make it easier for employees to take advantage of the existing special leave systems.

(3) Objective: Encourage employees to use up their paid annual leave.

Enhancing Balance Support Systems

The Group has put in place work-life balance systems that go beyond the requirements of laws and regulations. We encourage employees to use all of their paid annual leave through policies allowing six straight days off and memorial breaks. We also let employees work shorter hours so they can take care of toddlers up until they study school, and offer nursing care leave for children until the children finish their final year of elementary school.

Improving Productivity by Managing Work Hours

On a companywide scale, we focus on improving the performance of every employee during the work hours by reassessing how he/she works. Such work improvements have also led to a reduction in work hours. Improving work procedures within the constraints of an employee's work hours on a companywide scale has also had the value-added benefit of preventing excessive work, such as discouraging employees from working overtime without compensation and cutting down overtime work.

Reducing Employee Workload by Upgrading Hall Equipment

To reduce the amount of tedious work performed manually by employees, such as equipment maintenance, we prioritize use of maintenance-free equipment in our pachinko halls to the extent possible. Reducing the workloads of employees allows them to interact more with customers and focus on more productive work.

Safe Work Environments

The Group makes efforts to prevent and reduce occupational accidents through its own rules for safety and hygiene management, with the aim of improving safety in the workplace.

Measures to Prevent Occupational Injuries and Counter Excessive Work

We fulfill our obligation to file reports about work injuries, and management effectively analyzes the situation and causes of work-related injuries using this information to prevent recurrence. To prevent any adverse health issues arising from employees long hours working, we focus on counting work hours and take steps to prevent excessive work for a companywide scale.

Work-related injuries severity rate※5

As of 31 March 2017

0.03%

※5 Calculated based on the Group in Japan

The work-related severity rate is calculated by the number of lost work days divided by total working hours multiplied by 1,000. This indicates the severity of labor accidents.

Promoting Health-Focused Management

The Group is aware that employees' health is the starting point for everything and engages in health-focused management by fostering a culture that puts employees' health in first priority. The Group maximizes the utilization of external resources, such as the Kantoh Hyakkaten Health Insurance Society of which it is a member, as well as providers that specialize in health consultations. We proactively take steps to promote health of employees through internal and external collaboration.

● Health Management Initiatives for All Employees

All employees are required to have periodic health checkups. In the fiscal year ended 31 March, 2017, 97.8% of our employees took health examinations, and we aim for a 100% health checkup ratio in near future. Employees whose test results are less satisfactory than normal standard meet with our in-house healthcare professionals for guidance on how to improve their lifestyles. Moreover, we focus on creating an environment that prioritizes health encouraging employees to quit smoking.

● Body and Mind Health Advice Service

With regards to mental health, special nurses are stationed at the Group Consultation Office to provide health advice to staff while coordinating with external mental health organizations to protect individual privacy. The EAP Consultation Office is also available to employees for mental health care. Our employees undergo periodic stress checks, and can take advantage of the systems to help manage their stress.

Dialogue with Employees

In 1998, the DYNAM Union was formed as the first labor union in the pachinko industry. Since then, the Group has continued to hold talks with the labor union with the aim of creating a healthy work environment.

● Self-Assessment System

Once a year, full-time employees and designated-region employees write a self-assessment report, covering work conditions and individual issues. Each employee reflects their own career plan and reassesses their goals. By understanding the unique situation of each employee, we are able to train and allocate human resources more effectively.

● Discussions with Managers

Once every six months, we create opportunities for managers and their employees to discuss matters, such as setting goals and providing feedback about human resources evaluations. As work issues are identified, managers motivate their employees to perform at the best of their abilities.

● Creating a Healthy Work Environment Based on Talks with Labor Union

Through periodic meetings, the union of the Group facilitates discussions between management and employees for the purpose of maintaining a healthy work environment. The Work Environment Improvement Committee was established to solicit employee opinions for creating systems, which is not mandated by laws or regulations, reducing overtime work hours, and encouraging the use of paid annual leave.

Number of labor-management meetings held※6
For the year ended March 2017

28 times

Number of Work Environment Improvement Committee meetings held※7
As of 31 March 2017

47 times

※6, 7 Calculated based on the Group in Japan

By returning value to shareholders, we strive to meet the expectations of our shareholders while engaging in faithful and highly transparent communications with our shareholders and investors.

The Group believes maximizing corporate value will ultimately lead to the satisfaction of shareholder and investor.

To build relationships of trust with our shareholders and investors, we proactively engage in IR activities in line with management policies and rules for information disclosure as outlined in our Charter of Corporate Behavior. Through these activities, we seek to convey the activities of the entire Group to our shareholders and investors accurately.

We focus on meeting shareholder expectations by continuing to return value to shareholders through the reliable payment of dividends as a basic policy.

Direction of Specific Measures

High Transparent Communication through Information Disclosure

The Group has been engaged in proactive information disclosure from even before its listing on the Hong Kong Stock Exchange and has continued to build relationships of trust with shareholders and investors by enhancing the transparency of management.

Proactive Development of Investor Relations Activities

The Company holds results briefings twice a year in Hong Kong and Tokyo for financial analysts and institutional investors. We also entertain requests for follow-up interviews and small meetings at any time, while also inviting foreign investors to Japan for explanatory meetings and tours of our facilities. Management continues to engage in direct communications with investors by participating in conferences for individual investors that are sponsored by securities firms in Japan.

Key IR Engagements (Fiscal Year Ended 31 March 2017)

Results briefings	2 times (in Hong Kong and Tokyo), once for full-year results and once for interim results
Meetings with individual investors	9 times
Meetings with foreign investors	5 times (Held in Tokyo, Osaka, Sapporo and Fukuoka)

Top Management Participation in IR Activities

Twice a year, results are announced for the interim period and the entire financial year. Opportunities are also created for top management to explain the Company's performance and forward-looking strategies directly to institutional investors and financial analysts.

In addition, we aim to deepen the public's understanding on the Company through dialogue with financial analysts and the news media in small meetings where top management, directors in charge of various departments, and executive officers explain our operations.

Communication with Shareholders and Investors

We take special care to promptly and fairly disclose information while proactively disseminating information. To disseminate IR information from the standpoint of fair disclosure promptly and openly, we have created an IR section on our website to publish earnings results, financial data and other information in English, Japanese and Chinese.

Direction of Specific Measure

Meeting Shareholders' Expectations through Returns to Shareholders'

Management believes in the importance of returning to shareholders some of the profits generated through the Group's business activities. By providing a reliable stream of cash returns to shareholders, we hope to meet their expectations and build relationships of trust.

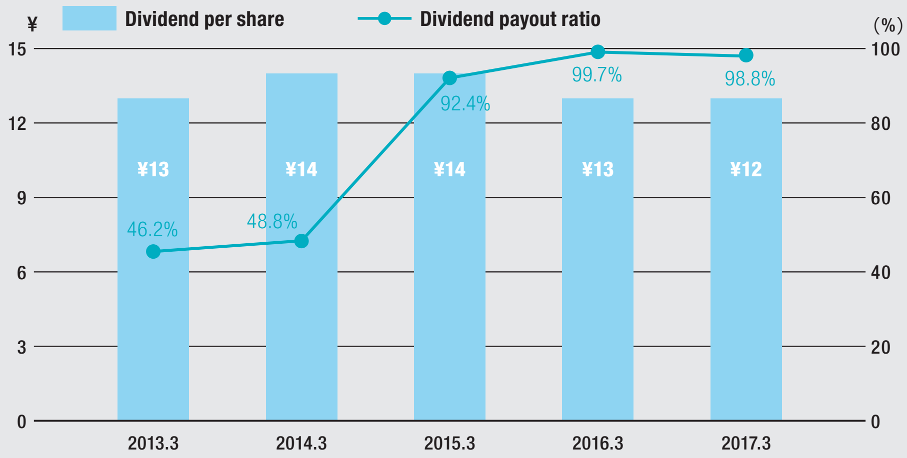
Consistent Payment of Stable Dividends

The Company focuses on the consistent payment of stable dividends as its basic policy for distributing profits to shareholders.

For the fiscal year ended 31 March 2017, we decided to distribute a year-end dividend of ¥6 per share in accordance with its stable dividend policy.

Combined with the interim dividend of ¥6 per share, the total annual dividend is ¥12 per share for a dividend payout ratio of 98.8%.

Dividend per share and dividend payout ratio



Selected for Inclusion in the Hang Seng Foreign Companies Composite Indexes on the Hong Kong Stock Exchange

Since 2013, the Company's shares have been selected for inclusion in the Hang Seng Foreign Companies Composite Indexes (HSFCCI) on the Hong Kong Stock Exchange.

The HSFCCI consist of stocks with average annual market capitalizations of at least HK$3.0 billion selected from among the foreign securities traded on the Hong Kong Stock Exchange.

As of 31 March 2017, 13 foreign stocks, including the Company, have been selected for inclusion in HSFCCI.

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 the Shareholders' value. The Board has set up procedures on corporate governance that comply with the requirements of the Code.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Code Provision E.1.3

Code provision E.1.3 stipulates that notice for AGM should be sent to the Shareholders at least 20 clear business days before the meeting. The AGM for the year ended 31 March 2016 was held on 23 June 2016, while the AGM notice was 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 was 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 finalize the annual report which accompanies the AGM notice to be dispatched to the Shareholders.

The AGM for the Reporting Period will be held on 22 June 2017 and its notice will be dispatched on 31 May 2017, which will not satisfy the minimum notice period as required by the code provision E 1.3, for the same reason as stated in the preceding paragraph.

Code provision A.2.1

Code provision A.2.1 provides that the roles of chairman and chief executive should be performed by different individuals. Mr. Kohei SATO has been in both roles during the Reporting Period and up to the Latest Practical Date.

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 the 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 AND "RULES ON PREVENTION OF INSIDER DEALINGS" BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules and the "Rules on Prevention of Insider Dealings" as code of conduct regarding Directors' transactions of the listed securities of the Company. The "Rules on Prevention of Insider Dealings", in addition to the Model Code, has been formulated and adopted by the Company at 1 April 2014 for Directors and employees of the Company who are likely to have access to unpublished inside information of the Group. 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 and the "Rules on Prevention of Insider Dealings" throughout the Reporting Period.

THE BOARD OF DIRECTORS

The Board is collectively responsible for the management and operations of the Company, setting fundamental business strategies and policies for the management and operation of the Group's business and monitoring their implementation. It is accountable to the Shareholders for its performance and activities and is the ultimate decision making body of the Group except for those matters that are reserved for approval by Shareholders in accordance with the Articles of Incorporation, the Listing Rules and other applicable laws and regulations. All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its Shareholders at all times. The running of the day-to-day businesses of the Company is delegated by the Board to the Chief Executive Officer and other executive officers except that authority is reserved for the Board to approve fundamental business strategies and policies, and all important matters such as interim and annual financial statements, dividend policy, annual budgets, business plans, internal control system, material transactions and other significant operational matters. The delegated functions and responsibilities are periodically reviewed. The executive officer 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 executive officer is being held accountable for reporting to the Board more than once in every three months. The Board currently consists of nine Directors, comprising two executive Directors, two non-executive Directors 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 non-executive Director and Mr. Kohei SATO who is the executive Director, 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 Reporting Period is as follows:

	Number of meetings held/attended				
	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Shareholders' meetings
Number of meetings held	**13**	**15**	**9**	**6**	**1**
Executive Director					
Mr. Kohei SATO (Chairman of the Board)	13/13	N/A	9/9	6/6	1/1
Mr. Haruhiko MORI	13/13	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Yoji SATO	13/13	N/A	N/A	N/A	1/1
Mr. Noriaki USHIJIMA	13/13	N/A	N/A	N/A	1/1
Independent Non-executive Director					
Mr. Ichiro TAKANO	13/13	15/15	N/A	N/A	1/1
Mr. Mitsutoshi KATO	13/13	N/A	9/9	6/6	1/1
Mr. Thomas Chun Kee YIP	13/13	15/15	N/A	N/A	1/1
Mr. Eisho KUNITOMO	13/13	14/15	N/A	N/A	1/1
Mr. Kei MURAYAMA	13/13	N/A	9/9	6/6	1/1

CONFIRMATION ON INDEPENDENCE

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

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. During the Reporting Period, all of the Directors namely Mr. Kohei SATO, Mr. Haruhiko MORI , Mr. Yoji SATO, Mr. Noriaki USHIJIMA, Mr. Ichiro TAKANO, Mr. Mitsutoshi KATO, Mr. Thomas Chun Kee YIP, Mr. Eisho KUNITOMO and Mr. Kei MURAYAMA 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. During the Reporting Period, the Company had held training seminar every month where all Directors attended.

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, risk management and internal control systems, 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 Reporting Period with an attendance rate of 100% except that Mr. Eisho KUNITOMO was absent in 1 out of the 15 meetings. The results for the Reporting Period 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 are to review and recommend the remuneration package of all Directors and other senior management of the Group.

The remuneration committee held 9 meetings during the Reporting Period with an attendance rate of 100%. The Remuneration Committee reviewed and recommended to the Board for approval of the remuneration package of all Directors and other senior management of the Company.

Details of the Directors' remuneration are set out in note 49 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 Reporting Period is set out below:

Remuneration bands	**Number of individuals**
HK$300,001 to HK$500,000 (equivalent to ¥4,332,014 to ¥7,222,000)	1
HK$500,001 to HK$1,000,000 (equivalent to ¥7,222,014 to ¥14,440,000)	0
HK$1,000,001 to HK$2,000,000 (equivalent to ¥14,440,014 to ¥28,880,000)	3
HK$2,000,001 to HK$4,000,000 (equivalent to ¥28,880,014 to ¥57,760,000)	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 6 meetings during the Reporting Period 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.

The Company has adopted a Board Diversity Policy to comply with a new code provision on board diversity which was effective from 1 September 2013. The Board Diversity Policy aims to set out the approach to achieve diversity in the Board to enhance the effectiveness of the Board and achieve a sustainable development of the Company. Selection of candidates for directors will be based on meritocracy, and candidates will be considered by objective criteria, having due regard for the benefits of diversity on the Board. Candidates will not be discriminated on the grounds of gender, age, cultural and educational background, ethnicity, religious or philosophical belief, etc

CORPORATE GOVERNANCE FUNCTIONS

The Board is collectively responsible for performing the 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 the Code and disclosure in the Corporate Governance Report.

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Directors recognize the responsibility for preparing the condensed consolidated financial statements of the Group. The Directors consider that the Group has adequate resources to continue their 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.

A statement by the Company's auditors in respect of their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report"

RISK MANAGEMENT, INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

The Board is responsible for making the risk management and internal control systems and monitoring their effectiveness.

The Company defines a basic framework of the risk management and internal control systems and the risk information in "DYJH Fundamental Policy of Internal Control" (the "Policy") . The Group Risk Management Committee, being established based on the Policy, puts the risk information together and analyzes them to take measures for the risk management.

Under the Companies Act, the internal control involves the risk management. The Group Risk Management Committee is categorized as a subordinate organization of the Group Internal Control Committee. The Group Risk Management Committee reports its activity to the Group Internal Control Committee every month and, the Group Internal Control Committee will then report its activity to the Audit Committee every month. The Board reviews the effectiveness of the risk management and internal control systems through the report prepared by the Audit Committee once a year.

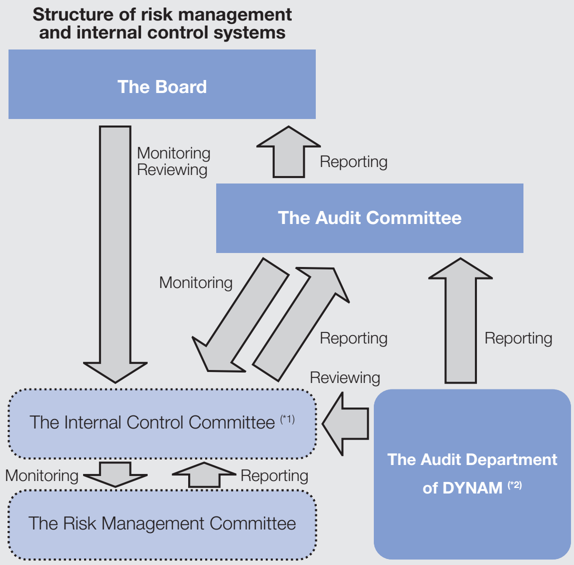
Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group regularly carries out internal audits by entrusting to the audit division of Dynam and introduced whistleblower system to avoid material internal control defects.

In addition, the Group lays down the procedures and internal controls for the handling and dissemination of inside information in "The Code of Conduct for Prevention of Insider Trading". Undisclosed information is integrated by the Information Manager and disclosed at a proper timing. The Group regularly educates all employees how to handle inside information.

The Executive Officers develop operational guidelines on anti-money laundering measures and evaluate the measures for effectiveness on a regular basis. These measures enable us to detect irregularities and unusual trends in the transactions that take place in the Group's pachinko halls which, if detected, are reported to the Executive Officers for investigation and remediation. In addition, the hall staffs are educated to detect irregular customer activities, particularly those involving large amounts of cash.

The Company recognizes that the review of the effectiveness of the risk management and internal control systems has been conducted and working effectively and adequately during the Reporting Period.



Description of the system

The Board, through the Internal Control Committee and the Audit Committee, has reviewed the adequacy and effectiveness of the Group's risk management and internal control systems.

*1 Under the Companies Act, "Internal Control" is defined to involve risk management. Therefore, "The Internal Control Committee" above is also in charge of risk management.

*2 The Company entrusts internal audits to Audit Department of Dynam.

AUDITOR'S REMUNERATION

The Company's external auditor is PricewaterhouseCoopers Aarata LLC.

During the Reporting Period, 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(2)
Audit services(1)	96	7
Non-audit services	1	Δ
Total fees	97	7

Note:

(1) Audit services in connection with the audit of the financial statements of the Company and its subsidiaries for the Reporting Period.

(2) Translated into Hong Kong dollars at the rate of ¥14.44 to HK$1.00, the exchange rate prevailing on 31 March 2017.

Δ: Less than 0.5 million

SHAREHOLDERS' RIGHTS

Rights to demand Directors to call a Shareholders' meeting

The Shareholders continuously holding the 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 raise enquiries to the Board

The Shareholders have the right to raise enquiries to the Board. All enquiries shall be sent in writing by post to the principal place of business of the Company in Hong Kong or the registered office in Japan, or through the Company's website (https://www.dyjh.co.jp/english/contact).

Rights to demand Directors to include a proposal in a convocation notice

Any Shareholder 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, to notify the Shareholders of the summary of the proposals which the demanding Shareholder intends to submit with respect to the matters that are the purpose of the Shareholders' meeting and include a proposal in the convocation notice of the Shareholders' meeting.

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

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

Amendments to the Articles of Incorporation

On 23 June 2016, partial amendment was made to the Articles of Incorporation to expand the scope of business of the Company so as to enable Business Partners, one of the wholly-owned subsidiaries of the Company, to newly engage in the business to support employment pursuant to the Act on Comprehensive Support for Daily and Social Lives of Persons with Disabilities (*syogaishya sogo shien hou*) (Act No. 123 of 2005, as amended).

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

During the Reporting Period, save as disclosed herein, there were no changes to information required to be disclosed by the Directors pursuant to Rule13.51B(1) of the Listing Rules.

JOINT COMPANY SECRETARIES

The Company engages Ms. MOK Ming Wai, 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, 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 Ming Wai and Mr. Norio HARASAWA have undertaken no less than 15 hours of relevant profession training during the Reporting Period.

Total Risk Management Structure

Each company of the Group independently manages the risk of its operational executions. Meanwhile, the Group has established a Group Risk Management Committee. The Committee takes initiatives from a Group-wide perspective to resolve issues related to risks of the overall Group.

Total Risk Management (Concept Chart)

The Group Internal Control Committee

↑ Propose and report ↓ Decide

The Group Risk Management Committee

- Analyze and evaluate compliance, information security, major natural disasters and other critical risks from a Group-wide perspective
- Optimize and reinforce the Group's risk mitigation policy

↑ Propose and report ↓ Implement measures within the Group, such as risk prevention advice, training, monitoring

Group companies

Risk management optimized to business of each company

Initiatives Taken by the Group Risk Management Committee

The Group has established a Group Risk Management Committee, an organization set up under the Group Internal Control Committee, to strengthen the risk management of the overall Group. The Group Risk Management Committee analyzes and evaluates compliance, information security, large-scale disasters, and other important risks from the vantage point of risks against the overall Group. It also strives to strengthen measures against risks from the perspective of the optimization of the Group.

Please also refer to the Corporate Governance Report on the pages from 42 to 47 of this Annual Report.

Crisis Management

In addition to the initiatives that are designed to prevent the occurrence of risks, it is also important for a company to develop crisis management to deal with a crisis, should it take place. The Group has established a structure in which the Group Risk Management Committee can promptly make decisions, provide information and take specific steps even at a time when a crisis takes place. The basic policy of crisis management is to place the priority on the safety and confidence of customers and other partners in trust, take steps to prevent the reoccurrence of risks, and maintain relevant records.

Prepare and practise BCP to enable response during emergencies

Over the past few years, Japan has experienced natural disasters with greater frequency, including a massive earthquake.

In the event of a crisis situation, establishing a framework to practice our BCP (business continuity plan) is an issue designed to minimize damage to our business assets and enable continuation of core operations or restoration of them as quickly as possible. Ensuring a BCP can be implemented in an emergency is an urgent issue.

The Group Risk Management Committee takes the lead in keeping manuals up to date and periodically conducting training to keep the entire Group in a state of readiness.

Set up an emergency response center, quickly gather information and respond appropriately to the situation

In the fiscal year ended 31 March 2017, some of our pachinko halls were damaged in the April 2016 Kumamoto Earthquake and the October 2016 Tottori Earthquake. Immediately after these major earthquakes, we set up an emergency response center to accurately assess the damage. We then examined and discussed what measures needed to be taken, and quickly moved to the implementation stage. We were able to resume operations within one week and provide assistance to people in regions affected by the natural disasters.

Backup plan for our data centers

The Group has its own data centers that house servers, networking equipment and other IT equipment. By having data centers with identical functions in two locations in Japan, we are able to maintain a network that is constantly backed up in case of an emergency.

Alternative facility for headquarters functions

The Group keeps up-to-date disaster manuals and conducts emergency response center training so that in the event of headquarters functions being impaired, our offices in other region can take over as an alternative headquarters and function as an emergency response center.

Emergency communications network for all employees

In the event of a major earthquake, we have put in place an automated safety confirmation system as a part of our Disaster Communications System for employees working in regions susceptible to an earthquake with an intensity of lower 6 on the Japanese scale of 7. Four times a year, we conduct training on the safety confirmation system based on various emergency scenarios through the Disaster Communications System.

Strengthening risk financing

The Group is aware of the importance of risk financing as a capital reserve in the event of losses stemming from the materialization of risks in an emergency situation.

Commitment line of ¥15,000 million for earthquake response

Dynam has a commitment line agreement with a syndicate of banks for use in the event of an earthquake. Under a traditional commitment line, there were some lingering concerns about being able to secure funds, because financial institutions could invoke an exception clause for major natural disasters. By obtaining a commitment line specifically for use after an earthquake, we have a method for rapidly raising funds within the framework of the agreement in the event of an earthquake or other natural disaster.

This commitment line is a revolving credit facility with an upper limit of ¥15,000 million.

Initiatives for Compliance

We take steps to develop organizations and a corporate culture that prioritize compliance, to ensure that it meets the expectations of customers and society and fulfills its corporate social responsibilities.

The Group Charter of Corporate Behavior represents the corporate behavior and commitment that are shared by all employees.

The reason for existence of a company is to achieve sustainable growth in line with the expectations of stakeholders, including shareholders, managers, employees, partners, financial institutions and customers, and to achieve a scale and a level of reliability that enable it to contribute to society. All employees of the Group share this principle.

To ensure that it can continue to conduct its business without compromising that trust, the Group has adopted new internal control systems to improve its operations. These systems also continually clarify and eliminate factors that have the potential to lead to misconduct or violations of laws and regulations.

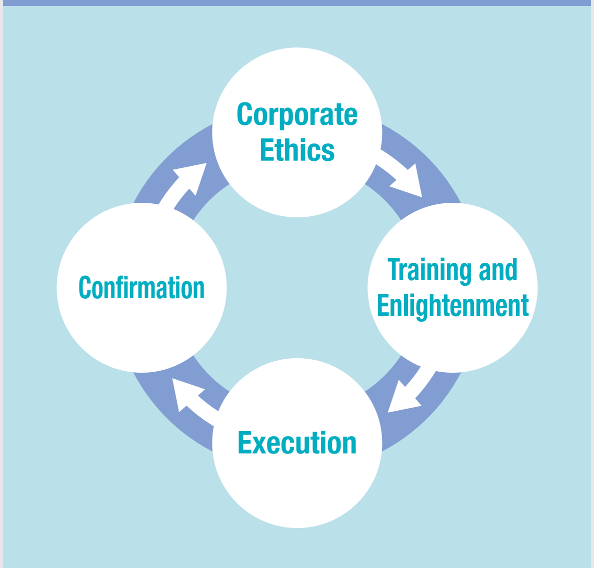
Compliance Promotion Structure Rooted in Actual Operation

A Group Internal Control Committee has been established to develop and manage a structure that promotes compliance from an inter-Group perspective.

The Group Internal Control Committee examines policies related to the Group's compliance management and execution plans of internal control, and monitors progress in the development of compliance and internal control structures.

Structure of Compliance Promotion

Compliance Promotion Cycle



Establishing a hotline to identify promptly and solve issues

In principle, employees of the Group are to report and consult with their managers when they become aware of activities that violate the Group Charter of Corporate Behavior. However, to promptly identify and solve such issues that are difficult to report or consult internally, a DYJH Group Hotline (a whistleblowing system) has been established using an outside law firm and is available to all Group companies.

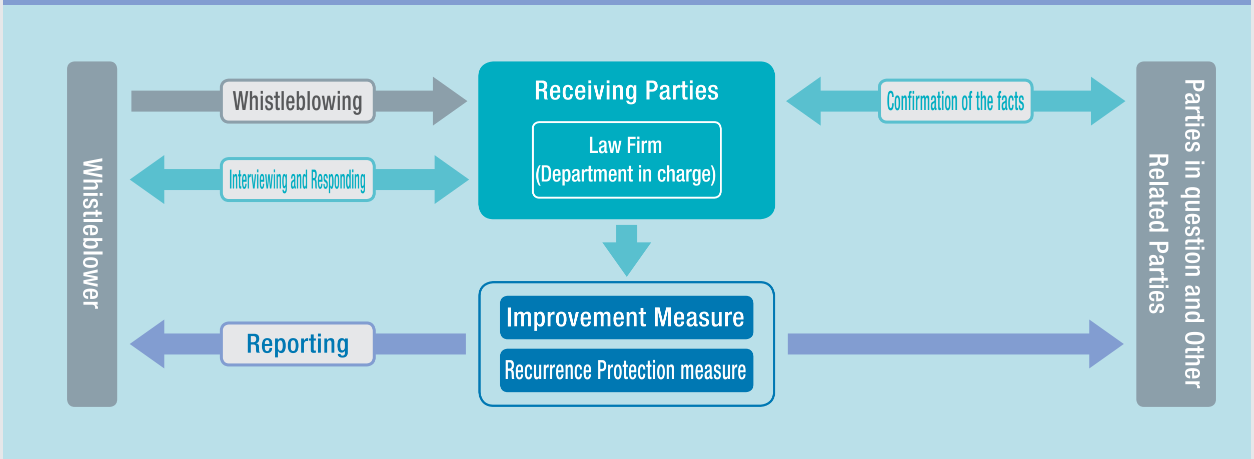
Not only the Group's employees, but also other workers, such as dispatched workers and contractors, as well as all family members of the employees, including those of dispatched workers, are encouraged to use the hotline to report activities that violate the Group Charter of Corporate Behavior or that may potentially create problems in the future.

Each issue that is presented through the hotline is examined by attorneys and the departments of the Group companies in charge, while carefully protecting the privacy of all related parties. If any particular problems are found, those in charge will take actions such as issuing improvement orders, and confirm later that the problems have been resolved and that full measures to prevent any recurrence have been carried out. They also report the matter to the Audit Committee.

Protection of Whistleblowers

As the Group established a hotline, under its internal rules, it prohibits whistleblowers from being treated unfairly. It also has established Whistleblowing Rules that state such obligations as following up on whistleblowers after the incidents to thoroughly enforce the rules for protecting whistleblowers.

Flow of Handling of the DYNAM HOLDINGS Hotline



Thorough Implementation of Fair Business Activities

The basic premise of the operations of the Group is to comply with laws and regulations, including the Law on Control and Improvement of Amusement Business (the Amusement Business Law), and to carry out fair business activities. Accordingly, the Group has developed operating manuals for its operation sites, and revises and manages these manuals to respond to revisions in laws and changes in the business environment.

The Group also strives to ensure that all halls nationwide comply with the related laws and regulations by establishing information sites related to regulations concerning sales methods and advertising restrictions, and publishing guidelines.

Moreover, the Group makes its best efforts to raise awareness and knowledge about compliance by publishing Rules on Compliance with the Anti-Monopoly Act, Rules on the Prevention of Unfair Competition Concerning Trade Secrets, Rules on the Prevention of Insider Trading, and other rules on the internal intranet site.

Prohibition of Bribery and Other Activities to Ensure the Transparency of Business Activities

The Group confirms in the Group Charter of Corporate Behavior that the Group will develop legally, socially, and ethically sound, reasonable, and equal relationships with business partners to ensure that it can economically grow together with its business partners. Accordingly, the Group prohibits its employees from receiving or offering entertainment or gifts from or to organizations, companies, individuals, or any other parties, and ensures that they maintain a sound and transparent relationship with such parties in compliance with laws and regulations.

Biographies of Directors and Senior Management

Executive Director

Executive Director, Chairman of the Board and Chief Executive Officer
Mr. Kohei SATO (Age: 62)

Mar 1983	Joined Advantest Corporation (NYSE: ATE)
Jun 1985	Joined Kodak Co., Ltd. (NYSE: EK)
Jun 1995	Joined Dynam
Jun 1998	Director, Corporate Planning Office of Dynam
Apr 1999	Director, Sales Department of Dynam
Jun 2000	President and Representative Director of Dynam
Jan 2013	CEO of the Company
Jun 2014	Executive Director and CEO of the Company
Jun 2015	Director and CEO of Dynam Hong Kong (present)
Jun 2015	Chairman of Dynam (present)
Jun 2015	Executive Director, Chairman of the Board and CEO of the Company (present)

Mr. Kohei Sato graduated from Tokyo University of Agriculture and Technology in March 1980 with a bachelor's degree in engineering; he received a master's degree in mechanical engineering from Tennessee Technological University in August 1982. Mr. Kohei SATO is the younger brother of Mr. Yoji SATO.

Executive Director
Mr. Haruhiko MORI (Age: 64)

Nov 1998	Joined Dynam
Aug 2000	General Manager, Legal Department of Dynam
Jun 2002	Executive Officer and General Manager, Legal Department of the Company
Jun 2007	Director and General Manager, Legal Department of Dynam
Oct 2012	Executive Officer of the Company
May 2013	Representative Director of Shinrainomori Association (present)
Jun 2013	Managing Director of Dynam
Jun 2015	President and Representative Director of Dynam (present)
Jun 2015	Executive Director and Executive Officer of the Company (present)

Mr. Mori graduated from Senshu University in March 1984 with a bachelor's degree in Law.

Non-executive Director

Non-executive Director, Senior Corporate Advisor of the Board
Mr. Yoji SATO (Age: 71)

Jan 1970	Joined Dynam
Sep 1978	President and Representative Director of Dynam
Jun 2000	Chairman and Representative Director of Dynam
Apr 2003	President and Representative Director of Dynam Investment Co., Ltd.
Mar 2007	Representative Director and CEO of Dynam Holdings Co., Ltd.
Dec 2009	Representative Chairman of One Asia (present)
Sep 2011	Executive Director and CEO of the Company
Jan 2013	Director of Dynam Hong Kong
Jun 2013	Executive Director and Chairman of the Board of the Company
Jun 2015	Executive Director and Senior Corporate Adviser
Jun 2016	Non-executive Director and Senior Corporate Adviser of the Company (present)

Mr. Yoji Sato graduated from Waseda University in March 1968 with a bachelor's degree in commerce. He is the elder brother of Mr. Kohei Sato.

Non-executive Director
Mr. Noriaki USHIJIMA (Age: 67)

Apr 1973	Joined Tokyo Stock Exchange, Inc.
Jun 2004	Director and Executive Officer of Jasdaq Securities Exchange, Inc.
Jul 2006	Advisor of Jasdaq System Solution, Inc.
Dec 2006	Founded Noriaki USHIJIMA Office
Mar 2008	Director and a member of the audit committee of Dynam Holdings Co., Ltd.
Sep 2011	Non-executive Director of the Company (present)

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

Independent non-executive Director

Independent non-executive Director
Mr. Ichiro TAKANO (Age: 61)

Apr 1987	Registered as Attorney-at-Law in Japan
Apr 1992	Joined Tokyo Eiwa Attorneys at Law
Jun 2005	Independent Auditor of Hirari Tsushin Inc. (TSE: 9435) (present)
Oct 2006	Auditor of Dynam Holdings Co., Ltd.
Mar 2007	Director and a member of the audit committee of Dynam Holdings Co., Ltd.
Jul 2008	Established Takano Law Offices (present)
Sep 2011	Independent Non-executive Director of the Company (present)

Mr. Takano graduated from Waseda University in March 1980 with a bachelor's degree in law.

Independent non-executive Director
Mr. Mitsutoshi KATO (Age: 59)

Apr 1982	Joined The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Apr 1988	Seconded to Kincheng-Tokyo Finance Company Limited
Mar 1990	Joined Credit Agricole Corporate and Investment Bank
Apr 1991	Vice President of Credit Agricole Corporate and Investment Bank, Tokyo
Jan 2005	Statutory Auditor of Eco-Material Corporation
Dec 2006	Director and CFO of Eco-Material Corporation
Feb 2012	Chairman and CFO of Eco-Material Corporation (present)
Feb 2012	Independent Non-executive Director of the Company (present)

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.

Independent non-executive Director
Mr. Thomas Chun Kee YIP (Age: 56)

May 1984	Joined Touche Ross & Co. Hong Kong
Jan 1986	Joined Price Waterhouse, Sydney Office
Dec 1988	Price Waterhouse, Hong Kong Office
Jul 1994	Senior Audit Manager of Price Waterhouse
Jan 2002	Joined CCIF CPA Limited
Mar 2008	Joined AIP Partners C.P.A. Limited, Practising Director (present)
Feb 2012	Independent Non-executive Director of the Company (present)

Mr. Yip graduated from the University of Sydney with a bachelor's degree in economics in April 1984. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Accountants Australia and New Zealand. 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.

Independent non-executive Director
Mr. Eisho KUNITOMO (Age: 66)

Apr 1974	Joined Marubeni Corporation (TSE: 8002)
Apr 1992	Seconded to Marubeni America Corporation as General Manager
Aug 1996	Registered as Attorney-at-Law in the State of New York
Apr 2001	Deputy General Manager, Legal Department of Marubeni Corporation
July 2003	Executive Officer in charge of Management Planning Department and General Manager, Legal and Share Management Group of Akebono Brake Industry Co., Ltd. (TSE: 7238)
Jan 2004	Senior Expert (Executive) of Akebono Brake Industry Co., Ltd.
Jan 2008	Management Planning Office of Akebono Brake Industry Co., Ltd.
Jun 2015	Independent Non-executive Director of the Company (present)

Mr. Kunitomo graduated from Osaka University in March 1973 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.

Independent non-executive Director
Mr. Kei MURAYAMA (Age: 62)

Apr 1978	Joined SWANY Corporation
Mar 1986	Joined Lawson Japan, Inc. (TSE: 2651)
Mar 2007	General Manager, Personnel and Training Division of Lawson Japan, Inc.
Mar 2009	Executive Officer of Lawson Japan, Inc.
Mar 2015	Executive Adviser for Personnel Matters of Lawson Japan, Inc. (present)
Jun 2015	Independent Non-executive Director of the Company (present)

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

Senior Management

Executive Director, Chairman of the Board and Chief Executive Officer
Mr. Kohei SATO (Age: 62)

The biography of Mr. Kohei Sato is provided on page 52 of this Annual Report.

Executive Director
Mr. Haruhiko MORI (Age: 64)

The biography of Mr. Haruhiko Mori is provided on page 52 of this Annual Report.

Executive Officer
Mr. Hisao KATSUTA (Age: 65)

Apr 1974	Joined Oji Paper Co., Ltd.
Jun 1985	Joined Daiwa Securities Group
Oct 2006	Managing director of Daiwa Corporate Investment Asia Limited
Feb 2012	Joined the Group Executive Officer of the Company (present)
Apr 2013	Director of Dynam Hong Kong (present)

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. He is qualified as a class one sales representative recognized by Japan Securities Dealers Association.

Executive Officer
Mr. Makoto SAKAMOTO (Age: 60)

Apr 1980	Joined Daiei Inc.
Sep 2000	Transferred to Big Boy Japan Co., Ltd
Nov 2002	Joined Central Services System Co., Ltd.
May 2003	Joined Japan Sportsvision Co., Ltd.
Feb 2004	Joined Dynam
Sep 2006	General Manager of the personnel department of Dynam Executive Officer of Dynam
Jun 2011	Director of Dynam (present)
Sep 2013	Executive Officer of the Company (present)

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

Executive Officer
Mr. Yoshiyuki MIZUTANI (Age: 60)

Apr 1981	Joined Daiei Inc.
Jul 2007	Joined Life Card Co., Ltd.
Jul 2012	Joined Dynam
Nov 2012	Executive Officer of the Company (present)
Jun 2015	Managing Director of Dynam (present)

Mr. Mizutani graduated from Keio University in March 1981 with a bachelor's degree in Law.

Mr. Mizutani has 35 years' experience in the field of finance and accounting.

The Board of Directors is pleased to present this Annual Report together with the audited consolidated financial statements of the Group for the Reporting Period (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 Reporting Period under review, the Group opened 5 new low playing cost halls and converted 5 existing high playing cost halls to low playing cost halls and 1 existing low playing cost hall to a high playing cost hall. In addition, the Group closed 1 unprofitable hall. Consequently, we are operating 265 low playing cost halls, making up almost 60% of the Group's 446 halls as at 31 March 2017.

BUSINESS REVIEW AND PROSPECT

A review of the business of the Group during the Reporting Period, a discussion on the Group's growth strategy, and our corporate vision are provided in the "Value Creation and Strategy of the Group" on pages 12 to 21 of this Annual Report. An analysis of the Group's performance during the Reporting Period 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 68 to 77 of this Annual Report.

Compliance with Relevant Laws and Regulations

During the Reporting Period, 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 "CSR of the Group" on pages 22 to 51 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 "CSR of the Group" on pages 22 to 51 of this Annual Report.

RISKS AND UNCERTAINTIES

The financial conditions and operating results of the Group may be subject to various potential risks and uncertainties which are provided as follows:

Category of risks	Type of risks	Details of risks
Business risks	Shrinking market	For pachinko hall industry, there are risks of the reduction of pachinko playing population and flowing out of customers to other amusements.
	Political risks	The change of the policy may cause strengthening of the regulation on pachinko hall business.
Operational risks	Social risks	Addiction to pachinko and pachislot (gaming addiction), harmful rumors and bad impression of pachinko may affect our business.
	Environmental risks	Although our business originally has a low impact on the environment, there are still environmental risks like power consumption in the halls.
	Fraudulent acts	Irregular customer activities and money laundering may hinder our pachinko hall operation.
	Over-reliance on key suppliers	Over-reliance on key suppliers including the manufacturers of gaming machines may obstract our pachinko hall operation.
Compliance risks	Breach of Listing Rules	Breach of Listing Rules may affect the listing of the Company.
	Breach of domestic regulations and rules	If there is any use of illegal gaming machine or any breach of Entertainment and Amusement Trades Control Act, various restrictions may be brought to our pachinko hall operation.
Other risks	Natural disaster	Because of the geographical nature of Japan, the Company may suffer from enormous natural disasters like earthquakes or floods.

RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the financial statements from page 82 to page 159 of this Annual Report.

DECLARATION OF FINAL DIVIDEND

The Board proposed to declare a final dividend of ¥6 per ordinary Share for the Reporting Period on 25 May 2017, and the final dividend will be payable on 23 June 2017 to the Shareholders whose names appear on the Company's share register at close of business on 2 June 2017. Based on the assumption that 765,985,896 Shares shall be in issue as at 2 June 2017, it is expected that the final dividend payable will amount to approximately ¥4,596 million (equivalent to approximately HK$318 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 25 May 2017 (being 18 to 19 and 22 to 24 May 2017).

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 66 to page 67 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Reporting Period are set out in note 22 of the financial statements on page 128 to page 129 of this Annual Report.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings are set out in note 32 of the financial statements on pages 140 to 141 of this Annual Report. As at the end of Reporting Period, the Group's total current interest-bearing loans amounted to ¥7,281 million (2016: ¥2,369 million) and the total non-current interest-bearing loans amounted to ¥22,768 million (2016: ¥18,394 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.

SHARE CAPITAL

Details of movements in the share capital for the Reporting Period are set out in note 39 to the financial statements on pages 149 to 150 of this Annual Report.

RESERVES

Details of movements in the reserves of the Company for the Reporting Period are set out in note 41 to the financial statements on page 151 to page 153 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 2017, the Company had reserves available for distribution to its Shareholders of ¥66,921 million (2016: ¥65,430 million).

ACQUISITION, SALE OR CANCELLATION OF THE COMPANY'S OWN SHARES

As at 31 March 2016, 844,200 ordinary Shares were repurchased but not yet cancelled. As at 28 April 2016, all the repurchased Shares had been cancelled. Please note that Yume Corporation, our subsidiary, have sold 1,000,000 ordinary Shares of the Company during the Reporting Period. This amounted to 0.13% of total issued Shares and the share price was set at ¥162 per share in an off-market trade on 27 September 2016. Save as disclosed, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

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 Latest Practicable Date, 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 2016 to 31 March 2017.

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 Reporting Period and up to the date of this Annual Report are as follows:

Executive Director

Kohei SATO reappointed on 23 June 2016
Haruhiko MORI reappointed on 23 June 2016

Non-executive Director

Yoji SATO reappointed on 23 June 2016
Noriaki USHIJIMA reappointed on 23 June 2016

Independent Non-executive Directors

Ichiro TAKANO reappointed on 23 June 2016
Mitsutoshi KATO reappointed on 23 June 2016
Thomas Chun Kee YIP reappointed on 23 June 2016
Eisho KUNITOMO reappointed on 23 June 2016
Kei MURAYAMA reappointed on 23 June 2016

DIRECTORS' BIOGRAPHIES

Directors' biographies are set out in the "Biographies of Directors and Senior Management" from page 52 to page 55 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 2016 to 31 March 2017 and have remained independent as of the Latest Practicable Date.

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 2017, 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 15 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 15 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 corporations[3]	258,332,560	
	Interest in spouse[3]	760	
	Other[5]	197,571,800	
		455,905,120	59.519%
Mr. Kohei SATO	Beneficial Owner[4]	55,139,680	
	Other[5]	400,765,440	
		455,905,120	59.519%
Mr. Haruhiko MORI	Beneficial Owner	230,000	0.030%
Mr. Noriaki USHIJIMA	Beneficial Owner[6]	414,000	0.054%
Mr. Ichiro TAKANO	Beneficial Owner	20,000	0.003%

Notes:

(1) All interests stated are long positions.

(2) There were 765,985,896 Shares in issue as at 31 March 2017.

(3) Out of the total of 258,332,560 Shares, SATO AVIATION CAPITAL LIMITED ("SAC"), which is wholly owned and controlled by Mr. Yoji SATO, is beneficially interested in 162,522,560 Shares. Rich-O is beneficially interested in remaining 95,810,000 Shares and 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, each of SAC and Rich-O is directly or indirectly controlled by Mr. Yoji SATO and the interests in the Company held by SAC and Rich-O are deemed to be Mr. Yoji SATO's interests under the SFO. 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 (as hereinafter defined), has been reappointed as an executive Director on 23 June 2016 to serve concurrently as Chief Executive Officer. He is beneficially interested in 55,139,680 Shares.

(5) The Sato Family Members consist of Mrs. Keiko SATO (wife of Mr. 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 in which any Sato Family Member is interested.

(6) Mr. Noriaki USHIJIMA, one of non-executive directors of the Company, transferred 424,000 shares of his holdings during the Reporting Period.

Save as disclosed above, as at 31 March 2017, 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 15 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 2017, 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 15 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	
	Interest in controlled corporation[(3)]	95,810,000	
		258,332,560	33.725%
Rich-O	Beneficial owner[(3)]	95,810,000	12.508%
One Asia	Beneficial owner[(4)]	80,000,000	10.444%
Mrs. Keiko SATO	Beneficial owner[(5)]	760	
	Interest of spouse[(5)]	258,332,560	
	Other[(5)]	197,571,800	
		455,905,120	59.519%
Mr. Kiyotaka SATO	Beneficial owner	9,900,000	
	Other[(5)]	446,005,120	
		455,905,120	59.519%
Mr. Masahiro SATO	Beneficial owner	45,059,680	
	Other[(5)]	410,845,440	
		455,905,120	59.519%
Mr. Shigehiro SATO	Beneficial owner	46,575,680	
	Other[(5)]	409,329,440	
		455,905,120	59.519%
Mrs. Yaeko NISHIWAKI	Beneficial owner	40,896,760	
	Other[(5)]	415,008,360	
		455,905,120	59.519%

Notes:

(1) All interests stated are long positions.

(2) There were 765,985,896 Shares in issue as at 31 March 2017.

(3) SAC, which is wholly owned and controlled by Mr. Yoji SATO, is beneficially interested in 162,522,560 Shares. Rich-O is beneficially interested in 95,810,000 Shares and 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, each of SAC and Rich-O is directly or indirectly controlled by Mr. Yoji SATO and the interests in the Company held by SAC and Rich-O are deemed to be Mr. Yoji SATO's interests under the SFO. 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 一般財團法人). 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) 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 and other Sato Family Members are interested, and Mr. Sato is deemed to be interested in the Shares in which each of the Sato Family Members is interested.

Save as disclosed above, as at 31 March 2017, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part 15 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 Reporting Period, 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 Reporting Period or subsisted at the end of the year.

Interests of Directors and Controlling Shareholders in Competing Business

During the Reporting Period, 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. Each of Mr. Yoji SATO, Mr. Kohei SATO, Mrs. Keiko SATO, Mrs. Yaeko NISHIWAKI, Mr. Masahiro SATO, Mr. Shigehiro SATO and Rich-O, the controlling shareholders (as defined in the Listing Rules) of the Company, has confirmed to the Company that during the Reporting Period he/she/it has complied with the non-competition undertakings given by them to the Company on 18 July 2012.

DIRECTOR'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements and contracts to which any of the Group was a party, and to which a Director had a material interest, subsisted at any time during or at the end of the Reporting Period.

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 49 and 19 respectively to the consolidated financial statements in 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 Reporting Period.

DONATIONS

During the Reporting Period, the Group made donations of approximately ¥160 million.

PENSION SCHEME

The Company and its subsidiaries in Japan have established defined contribution pension system, defined benefit pension plans 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.

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:	**2017**	2016
G-prize supplier	**50.9%**	51.5%
General prize supplier	**51.2%**	54.7%
Pachinko and pachislot machine supplier	**21.7%**	11.6%

	Year ended 31 March	
Top five suppliers:	**2017**	2016
G-prize supplier	**95.9%**	96.9%
General prize supplier	**81.2%**	86.0%
Pachinko and pachislot machine supplier	**49.0%**	44.3%

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 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 42 to page 47 of this Annual Report for further details.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS AND THE "RULES ON PREVENTION OF INSIDER DEALINGS"

The Company has adopted the Model Code and the "Rules on Prevention of Insider Dealings" 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 and the "Rules on Prevention of Insider Dealings" during the Reporting Period. The details are set out in the Corporate Governance Report on page 42 of this Annual Report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 March 2017 were prepared in accordance with IFRS and audited by PricewaterhouseCoopers Aarata LLC ("PwC Aarata LLC") 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 LLC (then called PricewaterhouseCoopers Aarata) has been appointed as the new auditor of the Company at the annual general meeting of shareholders of the Company held on 26 June 2014.

Save as disclosed above, there was no change in auditors of the Company in the past three years. A resolution for the reappointment of PwC Aarata LLC will be proposed at the forthcoming annual general meeting.

By order of the Board
Kohei SATO
Chairman of the Board

Japan, 25 May 2017

DYNAM JAPAN HOLDINGS Co., Ltd.

Annual Report 2017

Finance

Summary of Financial Performance

	Year ended 31 March						
							(in millions)
	2017		2016		2015	2014	2013
	¥	**HK$**	¥	HK$	¥	¥	¥
Gross pay-ins	**817,777**	**56,633**	844,885	58,148	826,072	922,172	929,158
Less: gross payouts	**(660,908)**	**(45,769)**	(688,974)	(47,417)	(671,516)	(756,418)	(765,197)
Revenue	**156,869**	**10,864**	155,911	10,730	154,556	165,754	163,961
Hall operating expenses	**(142,142)**	**(9,844)**	(138,326)	(9,520)	(134,659)	(135,940)	(133,904)
General and administrative expenses	**(5,622)**	**(389)**	(5,798)	(399)	(5,456)	(4,086)	(3,112)
Other income	**9,224**	**639**	8,184	563	6,850	7,139	9,250
Other operating expenses	**(2,430)**	**(168)**	(1,805)	(124)	(1,947)	(1,132)	(1,906)
Operating profit	**15,899**	**1,101**	18,166	1,250	19,344	31,735	34,289
Finance income	**233**	**16**	311	21	2,151	3,660	–
Finance expenses	**(1,307)**	**(91)**	(1,074)	(74)	(1,977)	(781)	(853)
Profit before income taxes	**14,825**	**1,027**	17,403	1,198	19,518	34,614	33,436
Income taxes	**(5,520)**	**(382)**	(6,864)	(472)	(8,259)	(13,377)	(12,511)
Net profit for the year	**9,305**	**644**	10,539	725	11,259	21,237	20,925
Net profit attributable to:							
Owners of the Company	**9,360**	**648**	10,544	726	11,303	21,255	20,925
Non-controlling interests	**(55)**	**(4)**	(5)	(Δ)	(44)	(18)	–
Net profit for the year	**9,305**	**644**	10,539	725	11,259	21,237	20,925
Earnings per share							
Basic	**¥12.2**	**HK$1**	¥13.9	HK$1	¥15.2	¥28.6	¥29.7
Diluted	**N/A**	**N/A**	N/A	N/A	N/A	N/A	N/A
EBITDA(*)	**28,469**	**1,972**	30,494	2,099	30,637	42,702	42,312

* EBITDA is defined as earnings before finance costs, taxation, depreciation, amortisation, and net foreign exchange gain or loss.

Δ Less than 0.5 million

	Year ended 31 March						
							(in millions)
	2017		2016		2015	2014	2013
	¥	**HK$**	¥	HK$	¥	¥	¥
Non-current assets	**142,043**	**9,837**	145,944	10,044	132,213	135,223	117,756
Current assets	**63,072**	**4,368**	43,240	2,976	48,723	50,946	50,568
Current liabilities	**38,496**	**2,666**	30,838	2,122	31,380	34,910	31,873
Net current assets	**24,576**	**1,702**	12,402	854	17,343	16,036	18,695
Total assets less current liabilities	**166,619**	**11,539**	158,346	10,898	149,556	151,259	136,451
Non-current liabilities	**29,738**	**2,059**	25,727	1,771	14,503	9,249	11,357
Total equity	**136,881**	**9,479**	132,619	9,127	135,053	142,010	125,094

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. ¥14.44 to HK$1.00, the exchange rate prevailing on 31 March 2017 (i.e. the last business day in March 2017).
2. ¥14.53 to HK$1.00, the exchange rate prevailing on 31 March 2016 (i.e. the last business day in March 2016).

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.

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				
	2017		2016		changes[3]
	(in millions, except for percentages)				
	¥	**HK$[1]**	¥	HK$[2]	%
Gross pay-ins					
— High playing cost halls	**498,995**	**34,556**	539,205	37,110	–7.5%
— Low playing cost halls	**318,782**	**22,076**	305,680	21,038	+4.3%
Total gross pay-ins	**817,777**	**56,633**	844,885	58,148	–3.2%
Gross payouts					
— High playing cost halls	**417,676**	**28,925**	455,107	31,322	–8.2%
— Low playing cost halls	**243,232**	**16,844**	233,866	16,095	+4.0%
Total gross payouts	**660,908**	**45,769**	688,974	47,417	–4.1%
Revenue					
— High playing cost halls	**81,319**	**5,632**	84,097	5,788	–3.3%
— Low playing cost halls	**75,550**	**5,232**	71,814	4,942	+5.2%
Total revenue	**156,869**	**10,864**	155,911	10,730	+0.6%

(1) Translated into Hong Kong dollars at the rate of ¥14.44 to HK$1.00, the exchange rate prevailing on 31 March 2017 (i.e. the last business day in March 2017).
(2) 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).
(3) The increase and decrease are referred to the changes in respect of the Japanese yen amounts but not the translated amounts in Hong Kong dollars.

The pachinko hall industry continues to operate under a harsh environment as the number of customers declines, operators heavily centered on high playing cost halls, and the playing revenues continue to decrease. On the other hand, we attract customers by creating easily accessible and secure environments through an increase in low playing cost halls and a staged reduction of the percentage of gambling game machines being installed.

Under such environment, the Group adopted a key policy of prioritizing hall creation from the customers' viewpoint and promoting sales focused on customers at each hall, and refurbished halls and implemented various experimental sales policies, all as an initiative for growing and developing together with the local community. Furthermore, as an effort to improve operations, the Group incorporated companywide sharing of successful examples of gaming environment improvements and sales measures that each hall is engaged in.

The Group aims to establish pachinko halls as a part of the community infrastructure that provides daily entertainment that everyone can easily enjoy, and is engaged in expanding its industry share of low playing cost halls to realize this objective.

During this fiscal year, the Group opened 5 new low playing cost halls, closed 1 hall as a result of reviewing commercial areas. Through such countermeasure, the number of halls as at the end of March 2017 became 446. By hall type, we operate 181 high playing cost halls and 265 low playing cost halls.

As a result of our efforts mentioned above, our total gross pay-ins for the year ended 31 March 2017 was ¥817,777 million (equivalent to approximately HK$56,633 million), recording a decrease by ¥27,108 million (equivalent to approximately HK$1,877 million*), or 3.2%*) to the previous fiscal year of ¥844,885 million (equivalent to approximately HK$58,148 million). Also, our total revenue increased by approximately 0.6%* to ¥156,869 million (equivalent to approximately HK$10,864 million), performing steadily under the tough business environment.

Set out below is detailed performance of our gross pay-ins, gross payouts, and revenue for this fiscal year.

GROSS PAY-INS

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

Our total gross pay-ins decreased by ¥27,108 million (equivalent to approximately HK$1,877 million*), or 3.2%*, from ¥844,885 million (equivalent to approximately HK$58,148 million) for the year ended 31 March 2016 to ¥817,777 million (equivalent to approximately HK$56,633 million) for the year ended 31 March 2017.

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

Gross pay-ins for high playing cost halls decreased by ¥40,210 million (equivalent to approximately HK$2,785 million*), or 7.5%*, from ¥539,205 million (equivalent to approximately HK$37,110 million) for the year ended 31 March 2016 to ¥498,995 million (equivalent to approximately HK$34,556 million) for the year ended 31 March 2017. The decrease was primarily due to the decrease in utilisation of our high playing cost machines.

Gross pay-ins for low playing cost halls increased by ¥13,102 million (equivalent to approximately HK$907 million*), or 4.3%*, from ¥305,680 million (equivalent to approximately HK$21,038 million) for the year ended 31 March 2016 to ¥318,782 million (equivalent to approximately HK$22,076 million) for the year ended 31 March 2017. The increase was due primarily to positive effect of operational measures for improvement of machine utilization and increased number of halls.

GROSS PAYOUTS

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

Our total gross payouts decreased by ¥28,066million (equivalent to approximately HK$1,944 million*), or 4.1%*, from ¥688,974 million (equivalent to approximately HK$47,417 million) for the year ended 31 March 2016 to ¥660,908 million (equivalent to approximately HK$45,769 million) for the year ended 31 March 2017.

Our gross payouts by hall type are as follows.

Gross payouts for high playing cost halls decreased by ¥37,431 million (equivalent to approximately HK$2,592 million*), or 8.2%*, from ¥455,107 million (equivalent to approximately HK$31,322 million) for the year ended 31 March 2016 to ¥417,676 million (equivalent to approximately HK$28,925 million) for the year ended 31 March 2017, which was in line with the decrease in gross pay-ins.

Gross payouts for low playing cost halls increased by ¥9,366 million (equivalent to approximately HK$649 million*), or 4%*, from ¥233,866 million (equivalent to approximately HK$16,095 million) for the year ended 31 March 2016 to ¥243,232 million (equivalent to approximately HK$16,844 million) for the year ended 31 March 2017. The increase was due primarily to the increase in gross pay-ins as a result of the increased number of halls.

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 ¥155,911 million (equivalent to approximately HK$10,730 million) and ¥156,869 million (equivalent to approximately HK$10,864 million) for the years ended 31 March 2016 and 2017 respectively. During this fiscal year, our total revenue increased year on year through our operational measures including change in machine mix.

Our revenue by hall type are as follows.

Revenue for high playing cost halls decreased by ¥2,778 million (equivalent to approximately HK$192 million*), or 3.3%*, from ¥84,097 million (equivalent to approximately HK$5,788 million) for the year ended 31 March 2016 to ¥81,319 million (equivalent to approximately HK$5,632 million) for the year ended 31 March 2017. The decrease was primarily due to a decrease in gross pay-ins. The revenue margin for the year ended 31 March 2017 increased by 0.7 points to 16.3% year-on-year, reflecting decreased ratio of gross payouts to gross pay-ins. The decrease in the ratio of gross payouts was a result of change in mix of machines implemented to encourage machine unilization in high playing cost halls.

Revenue for low playing cost halls increased by ¥3,736 million (equivalent to approximately HK$259 million*), or 5.2%*, from ¥71,814 million (equivalent to approximately HK$4,942 million) for the year ended 31 March 2016 to ¥75,550 million (equivalent to approximately HK$5,232 million) for the year ended 31 March 2017. The revenue margin was 23.7% for the year ended 31 March 2017 and maintained the same level as the previous fiscal year.

HALL OPERATING EXPENSES

Hall operating expenses for the year ended 31 March 2017 was ¥142,142 million (equivalent to approximately HK$9,844 million), recording an increase by ¥3,816 million (equivalent to approximately HK$264 million*), or 2.8%* as compared to the previous fiscal year of ¥138,326 million (equivalent to approximately HK$9,520 million).

Our hall operating expenses by hall type are as follows.

Hall operating expenses for high playing cost halls decreased by ¥2,627 million (equivalent to approximately HK$182 million*), or 3.8%*, from ¥70,001 million (equivalent to approximately HK$4,818 million) for the year ended 31 March 2016 to ¥67,374 million (equivalent to approximately HK$4,666 million) for the year ended 31 March 2017. The average hall operating expenses per hall also decreased by 1.6% due primarily to the decrease in average pachinko and pachislot machine expenses reflecting reduced procurement of pachinko and pachislot machines.

Hall operating expenses for low playing cost halls increased by ¥6,442 million (equivalent to approximately HK$446 million*), or 9.4%*, from ¥68,325 million (equivalent to approximately HK$4,702 million) for the year ended 31 March 2016 to ¥74,767 million (equivalent to approximately HK$5,178 million) for the year ended 31 March 2017, due primarily to the increase in all expense accounts such as hall staff costs associated with increased number of halls through new hall openings and conversion of hall type. The average hall operating expenses also increased by 6.1%.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased by ¥176 million (equivalent to approximately HK$12 million*), or 3%*, from ¥5,798 million (equivalent to approximately HK$399 million) for the year ended 31 March 2016 to ¥5,622 million (equivalent to approximately HK$389 million) for the year ended 31 March 2017. The decrease was primarily due to the outcome of improved productivity such as cost reduction.

OTHER INCOME

Other income for the years ended 31 March 2016 and 2017 were ¥8,184 million (equivalent to approximately HK$563 million) and ¥9,224 million (equivalent to approximately HK$639 million), respectively. The increase was primarily attributable to increased commission income from vending machines and in-store sales, increased income from catering services, and increased net gain on disposal of used machines.

OTHER OPERATING EXPENSES

Other operating expenses increased by ¥625 million (equivalent to approximately HK$43 million*), or 34.6%*, from ¥1,805 million (equivalent to approximately HK$124 million) for the year ended 31 March 2016 to ¥2,430 million (equivalent to approximately HK$168 million) for the year ended 31 March 2017. The increase was primarily attributable to the increased impairment loss on property, plant, and equipment, increased rental cost, and increased loss on disposal of property, plant, and equipment.

FINANCE INCOME

Finance income decreased by ¥78 million (equivalent to approximately HK$5 million*), or 25.1%*, from ¥311 million (equivalent to approximately HK$21million) for the year ended 31 March 2016 to ¥233 million (equivalent to approximately HK$16 million) for the year ended 31 March 2017. The increase was primarily attributable to the decreased dividends income and bank interest income.

FINANCE EXPENSES

Finance expenses increased by ¥233 million (equivalent to approximately HK$16 million*), or 21.7%*, from ¥1,074 million (equivalent to approximately HK$74 million) for the year ended 31 March 2016 to ¥1,307 million (equivalent to approximately HK$91 million) for the year ended 31 March 2017. The increase was primarily attributable to the increased net exchange loss.

* The increase and decrease are referred to the changes in respect of the Japanese yen amounts but not the translated amounts in Hong Kong dollars.

CASH FLOW AND LIQUIDITY

Cash flows

We meet our working capital and other capital requirements principally with the following: (i) cash generated from our operations 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			
	2017		2016	
				(in millions)
	¥	HK$[1]	¥	HK$[2]
Net cash generated from operating activities	**26,588**	**1,841**	24,093	1,658
Net cash used in investing activities	**(6,284)**	**(435)**	(10,673)	(735)
Net cash generated/(used) in financing activities	**192**	**13**	(15,212)	(1,047)
Effects of exchange rate changes on cash and cash equivalents	**(131)**	**(9)**	687	47
Net increase/(decrease) in cash and cash equivalents	**20,365**	**1,410**	(1,105)	(76)
Cash and cash equivalents at beginning of year	**28,134**	**1,948**	29,239	2,012
Cash and cash equivalents at end of year	**48,499**	**3,359**	28,134	1,936

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			
	2017		2016	
				(in millions)
	¥	HK$[1]	¥	HK$[2]
Operating profit before working capital changes	**29,415**	**2,037**	30,550	2,103
Change in working capital — (used in)	**2,060**	**143**	(2,079)	(143)
Cash generated from operations	**31,475**	**2,180**	28,471	1,959
Income taxes paid	**(4,713)**	**(326)**	(3,489)	(240)
Finance expenses paid	**(174)**	**(12)**	(889)	(61)
Net cash generated from operating activities	**26,588**	**1,841**	24,093	1,658

(1) Translated into Hong Kong dollars at the rate of ¥14.44 to HK$1.00, the exchange rate prevailing on 31 March 2017 (i.e. the last business day in March 2017).

(2) 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).

Net cash generated from operating activities

Our net cash generated from operating activities was ¥26,588 million (equivalent to approximately HK$1,841 million) for the year ended 31 March 2017 as compared to ¥24,093 million (equivalent to approximately HK$1,658 million) for the year ended 31 March 2016. The increase in our net cash generated from operating activities was mainly due to the positive change in working capital, partly offset by increased income taxes paid and decrease in operating profit before working capital change.

Net cash used in investing activities

Our cash used in investing activities primarily consist of capital expenditures for property, plant and equipment, including freehold land, buildings and leasehold improvements, tools and equipment, motor vehicles and construction in progress. Net cash used in investing activities was ¥10,673 million (equivalent to approximately HK$735 million) and ¥6,284 million (equivalent to approximately HK$435 million) for the years ended 31 March 2016 and 2017, respectively. The cash outflow for the year ended 31 March 2017 was primarily due to the purchase of property, plant, and equipment amounted to ¥9,925 million (equivalent to approximately HK$687 million). The cash inflow for the year ended 31 March 2017 was primarily due to the proceeds from disposal of financial assets amounted to ¥3,395 million (equivalent to approximately HK$235 million).

Net cash generated/(used) in financing activities

Our cash generated in financing activities primarily consists of bank loans raised.

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 2017, net cash generated from financing activities was ¥192 million (equivalent to approximately HK$13 million) compared to net cash used in financing activities of ¥15,212 million (equivalent to approximately HK$1,047 million) for the year ended 31 March 2016.

The cash outflow for the year ended 31 March 2017 was primarily due to the repayment of bank loans in the amount of ¥6,712 million (equivalent to approximately HK$465 million), dividend payment in the amount of ¥9,186 million (equivalent to approximately HK$636 million). The cash inflow for the year ended 31 March 2017 was primarily due to the bank loans raised amounted to ¥15,951 million (equivalent to approximately HK$1,105 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 2017		31 March 2016	
				(in millions)
	¥	HK$[(1)]	¥	HK$[(2)]
Current assets				
Inventories	**3,528**	**244**	3,580	246
Trade receivables	**563**	**39**	459	32
Prizes in operation of pachinko halls	**4,833**	**335**	4,916	338
Other current assets	**5,649**	**391**	6,151	423
Cash and cash equivalents	**48,499**	**3,359**	28,134	1,936
	63,072	**4,368**	43,240	2,976
Current liabilities				
Trade and other payables	**18,282**	**1,266**	17,786	1,224
Borrowings	**7,281**	**504**	2,369	163
Finance lease payables	**302**	**21**	86	6
Provisions	**1,892**	**131**	1,731	119
Income taxes payables	**3,258**	**226**	2,497	172
Other current liabilities	**7,481**	**518**	6,369	438
	38,496	**2,666**	30,838	2,122
Net current assets	**24,576**	**1,702**	12,402	854

(1) Translated into Hong Kong dollars at the rate of ¥14.44 to HK$1.00, the exchange rate prevailing on 31 March 2017 (i.e. the last business day in March 2017).

(2) 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).

As at 31 March 2016 and 2017, our net current assets totalled ¥12,402 million (equivalent to approximately HK$854 million) and ¥24,576 million (equivalent to approximately HK$1,702 million), respectively, and our current ratio was 1.4 and 1.6, respectively.

Gearing Ratio

The gearing ratio is an indicator of our capital structure, which is calculated as total borrowings divided by total assets. Total borrowings comprised long and short-term bank borrowings. The gearing ratio increased from 11% as at 31 March 2016 to 14.7% as at 31 March 2017, 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 2016 and 2017 were ¥11,873 million (equivalent to approximately HK$817 million) and ¥10,118 million (equivalent to approximately HK$701 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 to capital expenditure are provided in note 22 to the consolidated financial statements on page 128 of this Annual Report.

Inventories

Our total inventories decreased from ¥3,580 million (equivalent to approximately HK$246 million) as at 31 March 2016 to ¥3,528 million (equivalent to approximately HK$244 million) as at 31 March 2017. The decrease was primarily attributable to decrease in properties held for sale and under development for sale of ¥275 million (equivalent to approximately HK$19 million), partially offset by increase in supplies related to our pachinko hall operation of ¥244 million (equivalent to approximately HK$17 million).

The details to inventories are provided in note 27 to the consolidated financial statements on page 138 of this Annual Report.

Prizes in operation of pachinko halls

Our total prizes in operation of pachinko halls decreased from ¥4,916 million (equivalent to approximately HK$338 million) as at 31 March 2016 to ¥4,833 million (equivalent to approximately HK$335 million) as at 31 March 2017. The decrease was primarily attributable to decrease in G-prize of ¥158 million (equivalent to approximately HK$11 million), partially offset by increase in general prize of ¥75 million (equivalent to approximately HK$5 million).

The details to prizes in operation of pachinko halls are provided in note 28 to the consolidated financial statements on page 138 of this Annual Report.

PLEDGE OF ASSETS

As at 31 March 2017, certain property, plant, and equipment was pledged as securities for the bank borrowings, which amounted to ¥30,049 million (equivalent to approximately HK$2,081 million).

For the relevant information, please refer to note 32 to the consolidated financial statements on page 141 of this Annual Report.

CONTINGENT LIABILITIES

As at 31 March 2017, we had no material contingent liabilities.

CAPITAL COMMITMENTS

The details to capital commitments are provided in note 46 to the consolidated financial statements on page 156 of this Annual Report.

ACQUISITION AND DISPOSAL

For the year ended 31 March 2017, there was no material acquisition and disposal any of our subsidiaries.

SIGNIFICANT INVESTMENTS

Save for the new halls opened, we did not have any significant investments during the year ended 31 March 2017.

EMPLOYEES

As at 31 March 2017, we had approximately 17,809 employees (31 March 2016: 17,780). We will regularly review remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including housing fund schemes and discretionary incentive. The employee remuneration incurred for the year ended 31 March 2017 was ¥57,859 million (equivalent to approximately HK$4,007 million).

CAPITAL STRUCTURE

Principal sources of funds

Our principal sources of funds are cash generated from our operations and various short-term and long-term bank borrowings and lines of credit. Our primary liquidity requirements are to finance working capital, fund the payment of interest and principal due on our indebtedness and fund our capital expenditures and the growth and expansion of our operations.

We have historically met our working capital and other liquidity requirements principally from cash generated by our operations, while financing the remainder primarily through bank borrowings. Going forward, we expect to continue relying principally on our internally-generated cash flows for our working capital and other liquidity requirements, and bank borrowings as capital resources to finance a portion of our operations.

Indebtedness

Our short-term and long-term borrowings outstanding as at 31 March 2017 were ¥7,281 million (equivalent to approximately HK$504 million) and ¥22,768 million (equivalent to approximately HK$1,577 million), respectively. These bank borrowings are secured liabilities.

The details to borrowings are provided in note 32 to the consolidated financial statements on page 140 to page 141 of this Annual Report.

Loan facilities

As at 31 March 2017, we had a total amount of approximately ¥34,000 million (equivalent to approximately HK$2,355 million) of banking facilities and an installment facility available to us, of which approximately ¥32,000 million (equivalent to approximately HK$2,216 million) was unutilized.

The overview of our loan facilities is as follows.

Dynam has been continuing the commitment line contract with banks and syndicate of lenders with regard to the one responsive to earthquake disaster. The previous commitment line contract has remained a slight concern in the fund-raising due to effectuation of immunity reason for financial institutions at the time of large scale earthquake disaster. Dynam has signed the new commitment line contract responsive to earthquake disaster to resolve the above concern, which has enabled Dynam to secure the fund promptly even in the case earthquake disaster.

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 the period from the execution date of the original loan agreement to 31 March 2020.

Borrowings under the revolving loan facility bear interest at the rate of 0.4% per annum on top of 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 September 2016, Dynam also entered into a new installment facility contract with a syndicate of leasing companies in an amount of up to ¥15,000 million for the purpose of procurement of pachinko and pachislot machines upon expiration of the previous installment facility contract dated 30 September 2015. The loan facility is available for one year period from the execution date of the agreement.

FINANCIAL RISK

The Group's activities expose it to a variety of market risks, 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.

CREDIT RISK

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 minimize credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that 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, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet Its liquidity requirements in the short and long term.

Independent Auditor's Report

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

OPINION

What 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 82 to 159, which comprise:

- the consolidated statement of financial position as at 31 March 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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KEY AUDIT MATTERS

Key audit matters are the matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Summary of key audit matter:

- Impairment assessment of goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of Goodwill	
Refer to note 24. INTANGIBLE ASSETS to the consolidated financial statements. The Group has significant balance of goodwill amounting to ¥2,677 million in the consolidated statements of financial position as of 31 March 2017. The goodwill recorded relates to the acquisition of Yume Corporation, 100% owned by the Company, in the year ended 31 March 2016, for which the amount of the consideration was ¥5,798 million. The carrying amount of goodwill was entirely allocated to the pachinko halls of Yume Corporation that were expected to benefit from the synergies of the acquisition and is subject to an annual impairment test. An impairment test requires significant management judgement to determine the recoverable amount of a cash generating unit (CGU). The recoverable amount of CGUs are based on value in use calculations that require significant management judgement with respect to the pre-tax discount rate and underlining cash flows, in particular, future revenue growth rate and operating costs based on the business plans approved by the management for the following year. Yume Corporation recorded the operating profit for the year ended 31 March 2017, and the management has concluded that the recoverable amount of each CGU exceeded the respective carrying value as of 31 March 2017.	As part of our audit, we performed the following procedures related to the management's impairment assessment: • Obtained, understood and evaluated management's valuation methodology for impairment and value in use calculations; • Assessed the reasonableness of key assumptions used in the calculation of discounted future cash flows such as the pre-tax discount rate, revenue growth rate and operating cost structure, by reference to management's forecast, the Group's past performance and our knowledge of the Group's business and industry, taking into consideration the Group's strategy to shift its emphasis to low playing cost games and a challenging business environment the entire industry has to face; • Agreed key assumptions with supporting evidence, such as approved budgets, upon which forecasts were based and of which we evaluated the reasonableness to be used as a basis of future cash flows, in particular, for the CGUs that had lower headroom between the carrying values and the value in use; • Tested mathematical accuracy of the calculation of value in use derived from each discounted future cash flow; and • Evaluated the appropriateness of the related disclosures including those relating to the key assumptions and sensitivities. We determined the assumptions made by management in relation to the value in use calculations and the future cash flows to be supportable based on and consistent with the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Hideaki Zenba.

PricewaterhouseCoopers Aarata LLC
Certified Public Accountants

Japan, 25 May 2017

Consolidated Statement of Profit or Loss

FOR THE YEAR ENDED 31 MARCH 2017

	Note	**2017** **¥ million**	2016 ¥ million
Revenue	12	**156,869**	155,911
Hall operating expenses	13(a)	**(142,142)**	(138,326)
General and administrative expenses	13(b)	**(5,622)**	(5,798)
Other income	15(a)	**9,224**	8,184
Other operating expenses	15(b)	**(2,430)**	(1,805)
Operating profit		**15,899**	18,166
Finance income	16	**233**	311
Finance expenses	17	**(1,307)**	(1,074)
Profit before income tax		**14,825**	17,403
Income taxes	18	**(5,520)**	(6,864)
Net profit for the year		**9,305**	10,539
Net profit attributable to:			
Owners of the Company		**9,360**	10,544
Non-controlling interests		**(55)**	(5)
Net profit		**9,305**	10,539
Earnings per share	21		
Basic (¥)		**12.2**	13.9
Diluted (¥)		**12.2**	13.9

The notes on pages 89 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2017

	Note	**2017** **¥ million**	2016 ¥ million
Net profit for the year		**9,305**	10,539
Other comprehensive income/(loss):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit retirement plans	35(a)	**6**	(9)
— Income tax effect arising from actuarial gain or loss thereof		**(2)**	3
Revaluation surplus for properties		**18**	–
— Income tax effect arising from revaluation surplus for properties		**(6)**	–
Changes in fair value of financial assets measured at fair value through other comprehensive income/(loss)		**3,966**	(4,510)
— Income tax effect of changes in fair value of financial assets measured at fair value through other comprehensive income		**(30)**	237
		3,952	(4,279)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations		**43**	(494)
		43	(494)
Other comprehensive income/(loss) for the year, net of tax	42	**3,995**	(4,773)
Total comprehensive income for the year		**13,300**	5,766
Attributable to:			
Owners of the Company		**13,347**	5,768
Non-controlling interests		**(47)**	(2)
		13,300	5,766

The notes on pages 89 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

AT 31 MARCH 2017

	Note	**2017 ¥ million**	2016 ¥ million
Non-current assets			
Property, plant and equipment	22,46	**106,687**	109,532
Investment properties	23	**1,627**	2,179
Intangible assets	24	**3,833**	3,991
Financial assets measured at fair value through other comprehensive income	25	**7,008**	6,479
Deferred tax assets	36	**11,150**	11,229
Other non-current assets	26	**11,738**	12,534
		142,043	145,944
Current assets			
Inventories	27	**3,528**	3,580
Trade receivables	9(b)	**563**	459
Prizes in operation of pachinko halls	28	**4,833**	4,916
Other current assets	29	**5,649**	6,151
Cash and cash equivalents	30	**48,499**	28,134
		63,072	43,240
TOTAL ASSETS		**205,115**	189,184
Current liabilities			
Trade and other payables	31	**18,282**	17,786
Borrowings	32	**7,281**	2,369
Finance lease payables	33	**302**	86
Provisions	37	**1,892**	1,731
Income taxes payables		**3,258**	2,497
Other current liabilities	34	**7,481**	6,369
		38,496	30,838
Net current assets		**24,576**	12,402
Total assets less current liabilities		**166,619**	158,346

	Note	**2017** **¥ million**	2016 ¥ million
Non-current liabilities			
Deferred tax liabilities	36	**6**	20
Borrowings	32	**22,768**	18,394
Finance lease payables	33	**575**	126
Retirement benefit obligations	35	**234**	243
Other non-current liabilities	38	**807**	1,685
Provisions	37	**5,348**	5,259
		29,738	25,727
NET ASSETS		**136,881**	132,619
Capital and reserves			
Share capital	39	**15,000**	15,000
Capital reserve	41(a)	**12,741**	12,883
Treasury shares	39	**–**	(289)
Retained earnings	41(a)	**112,403**	110,253
Other component of equity	41(a)	**(3,191)**	(5,202)
Equity attributable to owners of the Company		**136,953**	132,645
Non-controlling interests		**(72)**	(26)
TOTAL EQUITY		**136,881**	132,619

The notes on pages 89 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2017

	Attributable to equity holders of the Company											
					Other component of equity							
	Share capital ¥ million	Capital reserve ¥ million	Treasury shares ¥ million	Retained earnings ¥ million	Investment revaluation reserve ¥ million	Fair value of financial assets at FVTOCI ¥ million	Foreign currency translation reserve ¥ million	Other reserves ¥ million	Total ¥ million	Total ¥ million	Non-controlling interests ¥ million	Total equity ¥ million
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
At 1 April 2016	**15,000**	**12,883**	**(289)**	**110,253**	**–**	**(6,685)**	**1,480**	**3**	**(5,202)**	**132,645**	**(26)**	**132,619**
Profit for the year	**–**	**–**	**–**	**9,360**	**–**	**–**	**–**	**–**	**–**	**9,360**	**(55)**	**9,305**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**3,936**	**35**	**16**	**3,987**	**3,987**	**8**	**3,995**
Transfer to retained earnings	**–**	**–**	**–**	**1,976**	**–**	**(1,972)**	**–**	**(4)**	**(1,976)**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**11,336**	**–**	**1,964**	**35**	**12**	**2,011**	**13,347**	**(47)**	**13,300**
Increase of consolidated subsidiaries — non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Disposals of treasury shares	**–**	**(2)**	**149**	**–**	**–**	**–**	**–**	**–**	**–**	**147**	**–**	**147**
Cancellation of treasury shares	**–**	**(140)**	**140**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2017 dividend	**–**	**–**	**–**	**(9,186)**	**–**	**–**	**–**	**–**	**–**	**(9,186)**	**–**	**(9,186)**
Total changes in equity for the year	**–**	**(142)**	**289**	**2,150**	**–**	**1,964**	**35**	**12**	**2,011**	**4,308**	**(46)**	**4,262**
At 31 March 2017	**15,000**	**12,741**	**–**	**112,403**	**–**	**(4,721)**	**1,515**	**15**	**(3,191)**	**136,953**	**(72)**	**136,881**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2017

	2017 ¥ million	2016 ¥ million
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**14,825**	17,403
Adjustments for:		
Finance expenses	**1,307**	1,074
Finance income	**(233)**	(311)
Depreciation	**11,895**	11,597
Amortisation of intangible assets	**442**	420
Loss on disposals and write off of property, plant and equipment	**448**	301
Impairment loss on property, plant and equipment	**414**	189
Fair value loss/(gain) from investment properties	**281**	(79)
Other adjustments	**36**	(44)
Operating profit before working capital changes:	**29,415**	30,550
Decrease/(increase) in prizes in operation of pachinko halls	**83**	(352)
(Increase)/decrease in inventories	**(499)**	568
(Increase)/decrease in trade receivables	**(107)**	32
Decrease/(increase) in other non-current assets	**660**	(223)
Decrease in other current assets	**444**	1,633
Increase/(decrease) in trade and other payables	**627**	(3,635)
Increase in other current liabilities	**1,129**	395
Decrease in other non-current liabilities	**(429)**	(526)
(Decrease)/increase in retirement benefit obligations	**(9)**	1
Increase in current provisions	**161**	28
Cash generated from operations	**31,475**	28,471
Income taxes paid	**(4,713)**	(3,489)
Finance expenses paid	**(174)**	(889)
Net cash generated from operating activities	**26,588**	24,093

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 ¥ million	2016 ¥ million
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(9,925)**	(12,613)
Purchase of intangible assets		**(330)**	(582)
Proceeds from disposal of property, plant and equipment		**98**	192
Proceeds from disposal of investment properties		**398**	–
Acquisition of subsidiaries, net of cash acquired		**–**	1,733
Purchase of financial assets measured at fair value through other comprehensive income		**(1)**	(239)
Proceeds from disposal of financial assets measured at fair value through other comprehensive income		**3,395**	474
Finance income received		**136**	177
(Increase)/decrease in time deposits		**(1)**	207
Payments for asset retirement obligations		**(81)**	(31)
Other adjustments		**27**	9
Net cash used in investing activities		**(6,284)**	(10,673)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans raised		**15,951**	11,788
Repayment of bank loans		**(6,712)**	(12,914)
Repayment of finance leases		**(8)**	(260)
Acquisition of treasury shares		**–**	(3,161)
Proceeds from disposal of treasury shares		**147**	–
Dividends paid	20	**(9,186)**	(10,665)
Net cash generated/(used) in financing activities		**192**	(15,212)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(131)**	687
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**20,365**	(1,105)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**28,134**	29,239
CASH AND CASH EQUIVALENTS AT END OF YEAR	30	**48,499**	28,134
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**48,499**	28,134

The notes pages 89 to 159 are an integral part of these consolidated financial statements.

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 2017 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 25 May 2017.

In the opinion of the directors of the Company, as at 31 March 2017, 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 2016 with no impact on the Group's results of operations and financial position:

— IFRSs (Amendment), 'Annual Improvements to IFRSs 2012–2014 Cycle'
— IFRS 10, IFRS 12 and IAS 28 (Amendment), Clarification on investment entities applying the consolidation exception
— IAS 1 (Amendment), 'Disclosure Initiative'
— IAS 16 and IAS 38 (Amendment), Clarification of Acceptable Methods of Depreciation and Amortisation
— IAS 19 Clarification of employee benefits
— IAS 27 (Amendment), Equity Method in Separate Financial Statements

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
IAS 7 (Amendment)	Disclosure Initiative	1 January 2017	March 2018	Amendment with regard to improving information about financing activities.
IAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	March 2018	Amendment with regard to clarifying the requirements on recognition of deferred tax assets for unrealised losses
IAS 40 (Amendment)	Investment Property	1 January 2018	March 2019	Amendment with regard to the clarification of the requirements on transfers to, or from, investment property
IFRSs (Amendment)	Annual Improvements to IFRSs 2014–2016 Cycle	1 January 2018	March 2019	Minor amendments that clarifying, correcting or removing redundant wording in a Standard
IFRS 15	Revenue from Contracts with Customers	1 January 2018	March 2019	Amendment with regard to the accounting of revenue recognition
IFRS 16	Leases	1 January 2019	March 2020	Requirement for lessee to recognise most lease contracts on the statement of financial position
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	March 2019	The exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency

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.

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 profit or loss 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)*

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 individual 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 profit or loss on reacquisition, sale, or cancellation of the Group's own equity instruments. Any differences between the carrying amount and the consideration is recognised in equity.

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, gross pay-ins from customers and operating costs.

(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 aging 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 are exposed 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 2017, 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 ¥61 million (2016: ¥21 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 2017, 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 ¥110 million (2016: ¥77 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 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 other comprehensive income	**2017** **¥ million**	2016 ¥ million
Hang Seng Index		
5%	**266**	240
(5%)	**(266)**	(240)
Tokyo Price Index		
5%	**21**	17
(5%)	**(21)**	(17)

The consolidated other comprehensive income would increase/decrease as a result of change in fair value on equity securities.

This change in fair value has no impact in profit or loss in that the equity securities hold as at 31 March 2017 and 2016 are categorized into financial assets measured at FVTOCI whose subsequent changes in fair value are presented in other comprehensive income.

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 2017, 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	**2017** **¥ million**	2016 ¥ million
25 basis points	**(45)**	(28)
(25) basis points	**45**	28

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 receivables regularly to ensure that adequate impairment losses are recognised for irrecoverable receivables. 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 receivables.

The gross carrying amount of trade receivable is 563 million yen as at 31 March 2017 (2016: 459 million yen).

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

	2017 **¥ million**	2016 ¥ million
1 to 30 days	**470**	432
31 days to 60 days	**26**	23
Over 60 days	**67**	4
	563	459

There is no significant past due balance nor loss allowance provision recognised for trade receivables as at 31 March 2017 (2016: Nil).

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 2017					
Trade and other payables	**18,282**	**–**	**–**	**–**	**18,282**
Other current liabilities	**7,481**	**–**	**–**	**–**	**7,481**
Borrowings	**7,455**	**6,056**	**17,067**	**217**	**30,795**
Finance lease payables	**305**	**250**	**327**	**–**	**882**
Other non-current liabilities	**–**	**125**	**85**	**597**	**807**
	33,523	**6,431**	**17,479**	**814**	**58,247**

	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

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 current fiscal 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 2016 to 31 March 2017.

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 2017 and 2016 are as follows:

	2017 **¥ million**	2016 ¥ million
Total liability	**68,234**	56,565
Less: cash and cash equivalents	**(48,499)**	(28,134)
Net liability	**19,735**	28,431
Total liability and total equity	**205,115**	189,184

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Notes	**At 31 March 2017 ¥ million Carrying amount**	**Fair value**	At 31 March 2016 ¥ million Carrying amount	Fair value
Financial assets					
Financial assets measured at FVTOCI	25	**7,008**	**7,008**	6,479	6,479
Financial assets measured at amortized cost		**10**	**10**	10	10
Loan and receivables (including cash and cash equivalents)		**50,605**	**50,605**	30,353	30,353
Rental deposits		**6,727**	**7,252**	6,882	7,517
Total		**64,350**	**64,875**	43,724	44,359
Financial liabilities					
Financial liabilities measured at amortized cost		**10,017**	**10,017**	9,532	9,532
Borrowings	32	**30,049**	**30,049**	20,763	20,763
Finance lease payables	33	**877**	**877**	212	212
Total		**40,943**	**40,943**	30,507	30,507

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

Financial assets	Notes	**2017 ¥ million**	2016 ¥ million
Dividends from equity investments held at FVTOCI	16		
Related to investment derecognised during the reporting period		**79**	–
Related to investments held at the end of the reporting period		**54**	161
Total		**133**	161

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

(a) Fair Value measurement

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

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 amortizes cost

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

(iii) 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.

(iv) 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.

(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.

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

(b) ***Fair Value estimation*** *(Continued)*

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.

(c) ***Recognised fair value measurements***

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

At 31 March 2017

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	**5,330**	**–**	**–**	**5,330**
Listed securities in Japan	**623**	**–**	**–**	**623**
Others	**–**	**–**	**1,055**	**1,055**
Total	**5,953**	**–**	**1,055**	**7,008**

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

(c) ***Recognised fair value measurements*** *(Continued)*

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

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.

(d) ***Valuation techniques used to determine fair values***

Specific valuation techniques used to value financial statements include:

- the use of net asset value method
- the use of quoted prices or dealer quotes for similar instruments
- the use of discounted cash flow analysis

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

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

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

Changes in level 3 for the period ended 31 March 2017 and 2016:

	2017 **¥ million**	2016 ¥ million
Balance at beginning of the period	**1,161**	1,028
Loss in other comprehensive income	**(97)**	–
Gains in profit or loss	**2**	60
Purchases	**1**	0
Acquisition of subsidiaries	**–**	119
Sales/Redemptions	**(12)**	(46)
Balance at end of the period	**1,055**	1,161

(f) Valuation inputs and relationship to fair value

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

Level 3 fair value measurements

			Fair value at	
Description	**Valuation technique**	**Unobservable inputs**	**31 Mar 2017** **¥ million**	31 Mar 2016 ¥ million
Unlisted equity securities and others	Net Asset value method	–	**1,055**	1,161

(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.

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

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 2017

Description	**Fair value measurements using:**			
	Level 1	**Level 2**	**Level 3**	**Total**
	¥ million	**¥ million**	**¥ million**	**¥ million**
Financial assets				
Rental deposits	**–**	**7,252**	**–**	**7,252**
Total	**–**	**7,252**	**–**	**7,252**

At 31 March 2016

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

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

(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:

	2017 **¥ million**	2016 ¥ million
Non-current assets		
Macau Legend Development Limited *1	**3,393**	2,653
IGG Inc *1	**1,937**	1,936
Others	**1,678**	1,890
	7,008	6,479

*1 These are investments in listed equity securities.

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.

(ii) Disposal of equity investments

During the year ended 31 March 2017, the Group has sold its shares held in IGG as the result of reassessment of the Group's investment strategy. The share sold had a fair value of ¥3,382 million and the Group realised a gain of ¥1,972 million which is already included in other comprehensive income. This gain has been transferred to retained earnings.

During the year ended 31 March 2016, 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. 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.

12. SEGMENT INFORMATION *(Continued)*

REVENUE

	2017 ¥ million	2016 ¥ million
Gross pay-ins	**817,777**	844,885
Less: Gross payouts	**(660,908)**	(688,974)
Revenue	**156,869**	155,911

13. HALL OPERATING EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

(a) Hall operating expenses

	2017 ¥ million	2016 ¥ million
Advertising expenses	**5,098**	4,817
Cleaning and ancillary services	**3,973**	3,707
Depreciation charges expenses	**11,536**	10,453
Hall staff costs	**49,974**	47,372
Pachinko and pachislot machine expenses	**34,229**	35,832
Rental expenses	**12,950**	12,048
Repair and maintenance expenses	**3,074**	3,676
Utilities expenses	**6,116**	6,093
Others	**15,192**	14,328
	142,142	138,326

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

(b) General and administrative expenses

	2017 **¥ million**	2016 ¥ million
Salaries, bonus and allowances	**3,286**	3,219
Audit fee	**96**	113
Others	**2,240**	2,466
	5,622	5,798

14. STAFF COSTS AND DIRECTOR'S EMOLUMENTS

	2017 **¥ million**	2016 ¥ million
Salaries, bonus and allowances	**56,991**	54,281
Expenses recognised in respect of defined benefit retirement plans	**46**	20
Contribution to defined contribution retirement plans	**822**	839
	57,859	55,140

15. OTHER INCOME AND OTHER EXPENSES

(a) Other income

	2017 **¥ million**	2016 ¥ million
Commission from vending machines and in-store sales	**4,758**	4,240
Income from forfeiture of customer's membership cards	**233**	254
Income from catering services	**642**	514
Sales from property held for sale	**674**	858
Net gains on disposals of used machines	**797**	423
Rental income	**944**	694
Others	**1,176**	1,201
	9,224	8,184

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

(b) Other operating expenses

	2017 **¥ million**	2016 ¥ million
Disposal cost of non-financial assets	**487**	321
Impairment loss of non-financial assets	**424**	189
Cost of sales of property held for sale	**267**	440
Rental cost	**532**	322
Others	**720**	533
	2,430	1,805

16. FINANCE INCOME

	2017 **¥ million**	2016 ¥ million
Bank interest income	**3**	16
Dividend income	**133**	161
Others	**97**	134
	233	311

17. FINANCE EXPENSES

	2017 **¥ million**	2016 ¥ million
Interest expenses	**222**	299
Amortisation of syndicated loan charges	**212**	322
Foreign exchange loss, net	**787**	368
Others	**86**	85
	1,307	1,074

18. INCOME TAXES

	2017 ¥ million	2016 ¥ million
Current taxes — Japan Profits Tax		
Provision for the year	**5,441**	5,197
Under-provision in prior years	**65**	9
	5,506	5,206
Current taxes — Overseas		
Provision for the year	**1**	28
Under-provision in prior years	**(25)**	–
	(24)	28
Deferred taxes (Note 36)		
Provision for the year	**38**	1,630
Income tax expense	**5,520**	6,864

As a result of the 2017 Tax Reform passed on 29 March 2017, 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 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 Group consolidated 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 2017.

18. 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:

	2017 ¥ million	2016 ¥ million
Profit before tax	**14,825**	17,403
Japan Profits Tax rate	**32%**	33%
Tax at the domestic income tax rate	**4,698**	5,743
Tax effect of income that is not taxable	**(140)**	(281)
Tax effect of expenses that are not deductible	**542**	674
Tax effect of temporary differences not recognised	**131**	(4)
Tax losses not recognised	**284**	305
Under-provision in prior years	**40**	9
Effect of different tax rates of subsidiaries	**(18)**	(29)
Effect of change in tax rate	**17**	251
Others	**(34)**	196
Income tax expense	**5,520**	6,864

19. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals in the Group during the year included two (2016: two) directors whose emoluments are reflected in the analysis presented in Note 49.

The emoluments of the remaining three (2016: three) individuals are set out below:

	2017 ¥ million	2016 ¥ million
Salaries and allowances	**78**	69
Discretionary bonus	**7**	8
Retirement benefit contributions scheme	**–**	–
	85	77

19. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

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

	2017 Number of individuals	2016 Number of individuals
HK$1,500,001 to HK$2,000,000 (equivalent to ¥21,660,014 to ¥28,880,000) (2016: equivalent to ¥21,795,015 to ¥29,060,000)	**3**	3
HK$2,000,001 to HK$2,500,000 (equivalent to ¥28,880,014 to ¥36,100,000) (2016: equivalent to ¥29,060,015 to ¥36,325,000)	**–**	–
HK$2,500,001 to HK$3,000,000 (equivalent to ¥36,100,014 to ¥43,320,000) (2016: equivalent to ¥36,325,015 to ¥43,590,000)	**–**	–
HK$3,000,001 to HK$3,500,000 (equivalent to ¥43,320,014 to ¥50,540,000) (2016: equivalent to ¥43,590,015 to ¥50,855,000)	**–**	–

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 2017 (2016: Nil).

20. DIVIDENDS

Dividends declared and paid/payable to its shareholders by:	**2017**		2016	
	Dividend per share ¥	**Total dividends ¥ million**	Dividend per share ¥	Total dividends ¥ million
— Interim	**6.00**	**4,596**	7.00	5,465
— Final	**6.00**	**4,596**	6.00	4,590
		9,192		10,055

On 25 May 2017, the Board of Directors declared a final dividend of ¥6.00 per ordinary share of the Company, which is payable on 23 June 2017 to the shareholders of the Company.

The amount of proposed final dividend for the year ended 31 March 2017 is based on 765,985,896 shares in issue as at 25 May 2017 when the consolidated financial statements was approved by the Board of directors.

If the Group owns any treasury shares as at 2 June 2017 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.

21. EARNINGS PER SHARE

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

	2017	2016
	¥ million	¥ million
Earnings for the purpose of calculating basic earnings per share	**9,360**	10,544
Weighted average number of ordinary shares	**765,495,485**	757,341,412
Basic earnings per share (¥)	**12.2**	13.9

Diluted earnings per share was the same as basic earnings per share for the year ended 31 March 2017 and 2016 as there were no dilutive potential ordinary shares in existence during the year ended 31 March 2017 and 2016.

22. 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 2015	29,351	134,199	87,392	168	1,432	252,542
Acquisition of subsidiaries	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 23)	(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 and 1 April 2016	32,382	143,371	77,928	171	1,413	255,265
Additions	–	296	870	7	8,945	10,118
Transfer	10	2,929	4,654	55	(7,648)	–
Transfer to investment property (note 23)	(93)	(22)	–	–	–	(115)
Disposals/write off	(103)	(1,723)	(4,247)	(15)	–	(6,088)
Translation	1	(6)	(51)	(11)	–	(67)
Other	18	–	–	–	–	18
At 31 March 2017	32,215	144,845	79,154	207	2,710	259,131
Accumulated depreciation and impairment						
At 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 23)	–	(1,042)	–	–	–	(1,042)
Disposal/write off	–	(860)	(16,702)	(1)	–	(17,563)
Translation	–	(3)	(23)	(3)	–	(29)
At 31 March 2016 and 1 April 2016	2,627	87,157	55,871	78	–	145,733
Charge for the year	–	5,832	6,020	43	–	11,895
Impairment loss	13	263	138	–	–	414
Transfer to investment property (note 23)	–	18	–	–	–	18
Disposals/write off	–	(1,548)	(4,037)	(6)	–	(5,591)
Translation	–	(1)	(21)	(3)	–	(25)
At 31 March 2017	2,640	91,721	57,971	112	–	152,444
Carrying amount						
At 31 March 2017	29,575	53,124	21,183	95	2,710	106,687
At 31 March 2016	29,755	56,214	22,057	93	1,413	109,532

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

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

	2017 ¥ million	2016 ¥ million
Freehold		
Japan	**29,538**	29,719
South Korea	**37**	36
	29,575	29,755

(b) At 31 March 2017, the carrying amount of tools and equipment and motor vehicles held by the Group under finance leases amounted to ¥736 million (2016: ¥1,064 million).

(c) At 31 March 2017, the carrying amount of property, plant and equipment pledged as security for the Group's borrowings amounted to ¥3,240 million (2016: ¥6,021 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, gross pay-ins from customers and operating costs 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 circumstances specific to the CGU.

The growth rates are estimated zero at 31 March 2017 and 2016, 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 operating costs of the CGUs are costs based on the current structure of the business, which does not reflect any future restructuring or cost saving measures.

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

	2017 %	2016 %
Discount rate	**6.4**	8.0

Impairment loss recognised for the year ended 31 March 2017 amounted to ¥414 million (2016: ¥189 million).

23. INVESTMENT PROPERTIES

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

	2017 **¥ million**	2016 ¥ million
Non-current asset — at fair value		
At beginning of year	**2,179**	740
Acquisition of subsidiaries	**–**	422
Disposals	**(368)**	–
Net gain/(loss) from Fair value adjustment	**(281)**	79
Transfer from owner-occupied property	**97**	938
At end of year	**1,627**	2,179

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

	2017 **¥ million**	2016 ¥ million
In Japan		
Freehold	**1,194**	1,658
Medium-term lease	**433**	521
	1,627	2,179

Amounts recognised in profit or loss for investment properties:

	2017 **¥ million**	2016 ¥ million
Amounts recognised in profit or loss for investment properties are as follows:		
Rental income	**944**	694
Direct operating expenses from property	**(532)**	(322)
Net gain on disposals of investment properties	**30**	–
Fair value gain/(loss) recognised in other income	**(281)**	79
Total	**161**	451

23. 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 2017 and 2016 as follows:

At 31 March 2017

	Fair value measurements using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
	¥ million	**¥ million**	**¥ million**	**¥ million**
Investment properties				
Freehold	**–**	**–**	**1,194**	**1,194**
Medium-term lease	**–**	**–**	**433**	**433**
Total recurring fair value measurements	**–**	**–**	**1,627**	**1,627**

At 31 March 2016

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

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.

23. 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 2017 and 2016 for recurring fair value measurements:

	2017 **¥ million**	2016 ¥ million
Balance at beginning of the period	**2,179**	740
Acquisition of subsidiaries	**–**	422
Disposals	**(368)**	–
Transfer from owner-occupied property	**97**	938
Net gain/(loss) from Fair value adjustment	**(281)**	79
Balance at end of the period	**1,627**	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 and other expenses above).

2017	(281)
2016	79

23. 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 2017 ¥ million	Fair value 2016 ¥ million	Relationship of unobservable input to fair value when the unobservable input increases
Investment properties	Income approach	Discount rate	6.0%–12.0%			Decrease
		Rental period	5.5–24.5 years			Increase
		Capitalisation rate	12.0%			Decrease
		Market rent	¥ 596–¥14,215 per tsubo	**1,076**	806	Increase
	Sales comparison approach	Transaction price for similar land	¥20,548–¥45,173 per square meter			Increase
		Adjustment for attributes of the subject (*)	64.0%–94.0%	**97**	170	Increase
	Cost approach	Replacement Cost-Lands	¥20,900–¥24,700 per square meter			Increase
		Replacement Cost-Buildings	¥165,000–¥178,000 per square meter			Increase
		Accumulated depreciation rate	45.0%–100.0%	**454**	1,203	Decrease
				1,627	2,179	

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

(g) Valuation process

An explanations of valuation process is provided in note 11.

24. 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 2015	–	24	4,549	4,573
Additions	–	–	575	575
Acquisition of subsidiaries	2,677	13	129	2,819
Write off	–	–	(12)	(12)
At 31 March 2016 and 1 April 2016	2,677	37	5,241	7,955
Additions	–	7	311	318
Write off	–	–	(66)	(66)
At 31 March 2017	2,677	44	5,486	8,207
Accumulated amortisation and impairment				
At 1 April 2015	–	11	3,533	3,544
Amortisation for the year	–	4	416	420
At 31 March 2016 and 1 April 2016	–	15	3,949	3,964
Amortisation for the year	–	7	435	442
Write off	–	–	(33)	(33)
Impairment loss	–	–	1	1
At 31 March 2017	–	22	4,352	4,374
Net book value				
At 31 March 2017	2,677	22	1,134	3,833
At 31 March 2016	2,677	22	1,292	3,991

24. INTANGIBLE ASSETS *(Continued)*

(a) Impairment test for goodwill

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

Goodwill is related to the acquisition of Yume Corporation, and the carrying amounts are entirely allocated to the pachinko halls that are expected to benefit from the synergies of this business combination.

A summary of the goodwill allocation is presented below.

Name of pachinko hall	¥ million
KAKOGAWA (Hyogo Prefecture)	500
KOMORO (Nagano Prefecture)	400
TAKAYAMA (Gifu Prefecture)	300
Others	1,477
At 31 March 2017	2,677

(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 determined with reference to the 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.

24. INTANGIBLE ASSETS *(Continued)*

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

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

Key assumptions	
Revenue for the year ending 31 March 2018 (unit: million yen) (% annual growth rate) (*)	¥311 million – ¥750 million (0%)
Operating costs (unit: million yen)	¥227 million – ¥581 million
Pre-tax discount rate	6%

(*) For the year ending 31 March 2019 and thereafter

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

Key assumptions	**Approach used to determining values**
Revenue for the year ending 31 March 2018 (% annual growth rate)	Revenue for the year ending 31 March 2018 is based on the business plans approved by the management, which reflects the management's assessment of the industry future trend and the past practices, and the average annual revenue growth rate for the year ending 31 March 2019 and thereafter is conservatively determined taking into consideration the Group's strategy and a business environment.
Operating costs	Management forecasts operating costs of the CGUs based on the current structure of the business, which does not reflect any future restructuring or cost saving measures.
Pre-tax discount rate	Determined taken into account the weighted average cost of capital ("WACC").

(c) Significant estimate — impairment charge

There are no impairment losses recognised during the year ended 31 March 2017.

24. INTANGIBLE ASSETS *(Continued)*

(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 ¥13,398 million at 31 March 2017. This exceeds the total carrying amount of the CGUs, which goodwill has been allocated to, at 31 March 2017 by ¥7,644 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 2 percentage points or the operating costs increase by ¥31million(equivalent to increasing rate of 2%).

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.

25. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2017 **¥ million**	2016 ¥ million
Equity securities at fair value, listed in Hong Kong	**5,330**	4,804
Equity securities at fair value, listed in Japan	**623**	514
Others	**1,055**	1,161
	7,008	6,479

26. OTHER NON-CURRENT ASSETS

	2017 **¥ million**	2016 ¥ million
Rental prepayment	**3,705**	4,104
Rental deposits	**6,641**	6,723
Prepayment for lender commitment fee	**169**	200
Construction assistance fund receivables	**366**	496
Fire insurance premiums	**264**	390
Others	**593**	621
	11,738	12,534

27. INVENTORIES

	2017	2016
	¥ million	¥ million
Supplies	**1,300**	1,056
Properties held for sale and under development for sale	**1,813**	2,088
Others	**415**	436
	3,528	3,580

28. PRIZES IN OPERATION OF PACHINKO HALLS

	2017	2016
	¥ million	¥ million
G-prize	**3,678**	3,836
General prize	**1,155**	1,080
	4,833	4,916

29. OTHER CURRENT ASSETS

	2017 ¥ million	2016 ¥ million
Rental prepayment	**1,975**	2,028
Withholding tax receivables	**2,321**	2,235
Prepayment for lender commitment fee	**108**	167
Finance lease receivables	**237**	276
Deposit	**1**	337
Others	**1,007**	1,108
	5,649	6,151

30. CASH AND CASH EQUIVALENTS

	2017 ¥ million	2016 ¥ million
Cash on hand	**5,583**	5,550
Cash at bank	**42,916**	22,584
Cash and cash equivalents	**48,499**	28,134

As at 31 March 2017, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to ¥17 million (2016: ¥21 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:

	2017 ¥ million	2016 ¥ million
JPY	**43,010**	26,335
HKD	**3,903**	480
USD	**1,441**	1,063
Others	**145**	256
	48,499	28,134

31. TRADE AND OTHER PAYABLES

	2017 ¥ million	2016 ¥ million
Trade payables	**1,698**	1,432
Halls construction and system payables	**2,399**	2,438
Other tax expenses	**2,816**	2,492
Pachinko and pachinslot machine payables	**2,340**	2,340
Accrued staff costs	**7,913**	8,102
Others	**1,116**	982
	18,282	17,786

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

	2017 ¥ million	2016 ¥ million
1 to 30 days	**1,491**	1,372
31 days to 60 days	**126**	11
Over 60 days	**81**	49
	1,698	1,432

32. BORROWINGS

	2017 ¥ million	2016 ¥ million
Bank loans	**30,049**	20,763

32. BORROWINGS *(Continued)*

The borrowings are repayable as follows:

	2017 ¥ million	2016 ¥ million
On demand or within one year	**7,281**	2,369
In the second year	**5,897**	3,839
In the third to fifth years, inclusive	**16,657**	11,013
After five years	**214**	3,542
	30,049	20,763
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(7,281)**	(2,369)
Amount due for settlement after 12 months	**22,768**	18,394

Notes:

(i) The weighted average interest rates per annum as at 31 March 2017 and 2016 were set out as follows:

	2017 %	2016 %
Bank loans	**0.6**	0.7

(ii) The borrowings as at 31 March 2017 and 2016 were secured by the following:

	2017 ¥ million	2016 ¥ million
Property, plant and equipment	**3,240**	6,021

(iii) All carrying amount of the borrowings at 31 March 2017 and 2016 is arranged at floating interest rate and exposes the Group to cash flow interest rate risk.

33. FINANCE LEASES PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	**2017**	2016
	¥ million	¥ million	**¥ million**	¥ million
Within one year	**305**	89	**302**	86
In the second to fifth years, inclusive	**577**	131	**575**	126
	882	220	**877**	212
Less: Future finance charges	**(5)**	(8)	**–**	–
Present value of lease obligations	**877**	212	**877**	212
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(302)**	(86)
Amount due for settlement after 12 months			**575**	126

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 (2016: 5 years). The weighted average borrowing rate per annum at 31 March 2017 was 2.1% (2016: 2.4%). 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.

34. OTHER CURRENT LIABILITIES

	2017	2016
	¥ million	¥ million
Unutilised balls and tokens and unused pre-paid IC cards	**5,969**	5,093
Others	**1,512**	1,276
	7,481	6,369

35. 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 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$1,500 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 and 1 April 2016	509	(266)	243

35. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(a) (Continued)

	Present value of obligation ¥ million	Fair value of plan assets ¥ million	Total ¥ million
31 March 2016 and 1 April 2016	**509**	**(266)**	**243**
Current service cost	**46**	**–**	**46**
Interest expense/(income)	**2**	**(1)**	**1**
Total amount recognised in profit or loss	**48**	**(1)**	**47**
Remeasurements			
Return on plan assets, excluding amounts included in interest expense/(income)	**–**	**(3)**	**(3)**
(Gain)/loss from change in financial assumptions	**(3)**	**–**	**(3)**
Other	**(0)**	**–**	**(0)**
Total amount recognised in other comprehensive income	**(3)**	**(3)**	**(6)**
Contributions:			
Employers	**–**	**(39)**	**(39)**
Benefit payments	**(26)**	**15**	**(11)**
31 March 2017	**528**	**(294)**	**234**

(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.

(c) The principal actuarial assumptions adopted at each of the reporting period are as follows:

	2017 %	2016 %
Discount Rate	**0.449**	0.366

35. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(c) (Continued)

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:

	2017		2016	
	Increase	**Decrease**	Increase	Decrease
	¥ million	**¥ million**	¥ million	¥ million
Discount rate (0.25% movement)	**(14)**	**15**	(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 2017			
	Quoted	**Un-quoted**	**Total**	**in%**
	¥ million	**¥ million**	**¥ million**	
Equity instruments				**15.3%**
Information technology	**2**	**–**	**2**	
Energy	**1**	**–**	**1**	
Manufacturing	**11**	**–**	**11**	
Other	**31**	**–**	**31**	
Debt Instruments				**83.3%**
Government	**46**	**–**	**46**	
Corporate bonds (Investment grade)	**199**	**–**	**199**	
Cash and cash equivalents	**4**	**–**	**4**	**1.4%**
Total	**294**	**–**	**294**	**100.0%**

35. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(d) (Continued)

	31 March 2016			
	Quoted ¥ million	Un-quoted ¥ million	Total ¥ million	in%
Equity instruments				15.0%
Information technology	2	–	2	
Energy	1	–	1	
Manufacturing	10	–	10	
Other	27	–	27	
Debt Instruments				84.6%
Government	45	–	45	
Corporate bonds (Investment grade)	180	–	180	
Cash and cash equivalents	1	–	1	0.4%
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.

36. 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 2015	(103)	2,125	299	1,400	6,376	55	627	10,779
Acquisition of subsidiaries	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 18)								
— 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 and 1 April 2016	**597**	**2,087**	**246**	**1,549**	**6,036**	**(348)**	**1,042**	**11,209**
Credit/(charge) to equity for the year								
— origination and reversal of temporary differences	**(6)**	**(2)**	**–**	**–**	**–**	**–**	**(19)**	**(27)**
— effect of change in tax rate	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Credit/(charge) to profit or loss for the year (Note 18)								
— origination and reversal of temporary differences	**(139)**	**(71)**	**83**	**45**	**(366)**	**192**	**235**	**(21)**
— effect of change in tax rate	**(1)**	**1**	**–**	**(11)**	**(1)**	**–**	**(5)**	**(17)**
At 31 March 2017	**451**	**2,015**	**329**	**1,583**	**5,669**	**(156)**	**1,253**	**11,144**

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 2017, the Group has unused tax losses of ¥2,134 million (2016: ¥1,488 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 2017.

37. PROVISIONS

	Asset retirement obligation (Note (i)) ¥ million	Staff vacation payable (Note (ii)) ¥ million	Total ¥ million
At 1 April 2015	4,100	1,610	5,710
Acquisition of subsidiaries	858	93	951
Provision for the year	217	28	245
Changes in present value	84	–	84
At 31 March 2016	5,259	1,731	6,990
Provision for the year	3	161	164
Changes in present value	86	–	86
At 31 March 2017	**5,348**	**1,892**	**7,240**

Analysed as:

	2017 ¥ million	2016 ¥ million
Current liabilities	**1,892**	1,731
Non-current liabilities	**5,348**	5,259
	7,240	6,990

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.

38. OTHER NON-CURRENT LIABILITIES

	2017 ¥ million	2016 ¥ million
Retirement benefit payables converting to the defined contribution plan	**251**	330
Rental deposits received	**349**	369
Others	**207**	986
	807	1,685

39. 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 2016, and 1 April 2016		2,520,000,000	–
At 31 March 2017		2,520,000,000	–
Issued and fully paid:			
At 31 March 2016 and 1 April 2016		766,830,096	15,000
Decrease in Issued and fully paid shares	(i)	(844,200)	–
— At 31 March 2017		765,985,896	15,000

Note:

(i) The Decrease of 844,200 shares is due to the cancellation of shares subject to Article 178 of the Japan Company Law.

The Company's treasury shares included in the above issued shares are as follows:

	Note	Number of ordinary shares	¥ million
At 31 March 2016 and 1 April 2016		1,844,200	289
Decrease in treasury shares	(ii)	1,844,200	289
At 31 March 2017		–	–

39. SHARE CAPITAL *(Continued)*

Note:

(ii) The decrease of 1,844,200 treasury shares consists of:

- 844,200 shares cancelled 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.

  It notes that the Company hold the general meeting on 23 June 2016 where the general mandate to repurchase shares of the Company was granted within the range of 76,598,589 shares.

- 1,000,000 shares owned by Yume Corporation sold, which were permitted subject to Article 135, paragraph 2 of the Japan Company Law.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	**2017** **¥ million**	2016 ¥ million
Investments in subsidiaries	(i)	**66,444**	62,484
Other non-current assets		**754**	911
Due from subsidiaries — current portion	(ii)	**29,873**	29,727
Other current assets		**18,894**	12,292
TOTAL ASSETS		**115,965**	105,414
Due to subsidiaries — current portion	(iii)	**(16,322)**	(11,397)
Current tax liabilities		**(20)**	(4)
Other current liabilities		**(187)**	(142)
Other non-current liabilities		**(333)**	(338)
TOTAL LIABILITIES		**(16,862)**	(11,881)
Share capital		**(15,000)**	(15,000)
Reserves		**(84,103)**	(78,533)
TOTAL EQUITY		**(99,103)**	(93,533)
TOTAL LIABILITIES AND EQUITY		**(115,965)**	(105,414)

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(i) Investments in subsidiaries

Fluctuation of investments in subsidiaries is due to

	2017 ¥ million
Establishment of Shimonoseki Resort Development	70
Reversal of impairment loss of Dynam Hong Kong shares	3,890
	3,960

(ii) Due from subsidiaries — current portion

(a) Included in the current portion of the amounts due from subsidiaries was an amount of ¥29,864 million (2016: ¥29,718 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 2017 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 ¥16,288 million (2016: ¥11,375 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 2017 represents non-interest bearing balance and is trade in nature.

41. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of changes in equity.

41. RESERVES *(Continued)*

(b) Company

	Capital reserve (Note 41(c)) ¥ million	Treasury shares ¥ million	Retained earnings ¥ million	Fair value of financial assets measured at FVTOCI ¥ million	Total ¥ million
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 and 1 April 2016	**57,502**	**(140)**	**21,251**	**(80)**	**78,533**
Total comprehensive income for the year	**–**	**–**	**14,630**	**132**	**14,762**
Transfer to retained earnings	**–**	**–**	**52**	**(52)**	**–**
Cancellation of treasury shares	**(140)**	**140**	**–**	**–**	**–**
2017 dividend paid	**–**	**–**	**(9,192)**	**–**	**(9,192)**
At 31 March 2017	**57,362**	**–**	**26,741**	**–**	**84,103**

(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.

41. RESERVES *(Continued)*

(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.

42. 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 2017				
Remeasurements on defined benefit retirement plans	**6**	**6**	**(2)**	**4**
Revaluation surplus for properties	**18**	**18**	**(6)**	**12**
Changes in fair value of financial assets measured at FVTOCI	**3,966**	**3,966**	**(30)**	**3,936**
Exchange differences on translating foreign operations	**43**	**43**	**–**	**43**
Total	**4,033**	**4,033**	**(38)**	**3,995**

	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)

43. LIST OF SUBSIDIARIES

Particulars of the subsidiaries as at 31 March 2017 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
			2017	2016	
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))	Japan 14 December 1970	¥50,000,000	**100%**	100%	Operation of pachinko halls
Pattes (Note (i))	Japan 8 September 2010	¥10,000,000	**–**	100%	Real estate and property management
Japan Real Estate	Japan 4 September 2001	¥3,000,000	**100%**	100%	Real estate and property management
Dynam Business Support (Note (v))	Japan 31 October 2003	¥1,020,000,000	**100%**	100%	Real estate and property management Provision of accounting and administration services
Shinrainomori Association (Note (ii))	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

43. 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 2017	2016	Principal activities
Indirectly held					
Kanto Daido	Japan 22 January 1992	¥50,000,000	**100%**	100%	Trading of pachinko machines
Shinrainomori (Note (v))	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
Shimonoseki Resort Development (Note (iii))	Japan 1 September 2016	¥70,000,000	**100%**	–	Real estate development
Dynamic Games Macau (Note (iv))	Macau 4 May 2016	MOP3,500,000	**98.00%**	–	Development of pachinko machines

Notes:

(i) Yume Corporation was the surviving corporation in this absorption merge and Pattes was dissolved on 1 April 2016.

(ii) 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.

(iii) Shimonoseki Resort Development was established on 1 September 2016.

(iv) Dynamic Games Macau was established on 4 May 2016.

(v) Dynam Business Support was the surviving corporation in this absorption merge and Shinrainomori was dissolved on 1 April 2017.

44. MATERIAL NON-CASH TRANSACTIONS

The Group did not have any material non-cash transactions for the year ended 31 March 2017 (2016: ¥5,775 million, which was an increase of capital reserve by the acquisition of 100% of the issued share capital of Yume Corporation by the share exchange).

45. CONTINGENT LIABILITIES

At 31 March 2017, the Group did not have any significant contingent liabilities (2016: Nil).

46. CAPITAL COMMITMENTS

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

	2017	2016
	¥ million	¥ million
Contracted but not provided for	**650**	204
Approved but not contracted for	**1,914**	4,219
	2,564	4,423

47. LEASE COMMITMENTS

(a) Lessee

At 31 March 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017	2016
	¥ million	¥ million
Within one year	**724**	769
In the second to fifth years, inclusive	**1,875**	1,896
After five years	**725**	763
	3,324	3,428

The Group leases certain land and buildings under operating leases. The leases typically run for an initial average period of 19 years (2016: 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:

	2017	2016
	¥ million	¥ million
Lease payments		
Land and Buildings	**12,943**	10,094

48. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.

49. 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 2017					
Executive director					
Mr. Kohei Sato *(Chief executive officer)*	–	42.0	–	5.8	47.8
Mr. Haruhiko Mori	–	34.5	–	4.6	39.1
Non-executive director					
Mr. Yoji Sato	–	6.3	–	–	6.3
Mr. Noriaki Ushijima	–	6.0	–	–	6.0
Independent non-executive director					
Mr. Ichiro Takano	–	6.9	–	–	6.9
Mr. Mitsutoshi Kato	–	6.9	–	–	6.9
Mr. Thomas Chun Kee Yip	–	6.0	–	–	6.0
Mr. Eisho Kunitomo	–	6.0	–	–	6.0
Mr. Kei Murayama	–	6.0	–	–	6.0
Total	–	120.6	–	10.4	131.0

49. 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 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

Notes:

(i) Mr. Eisho Kunitomo and Mr. Kei Murayama were appointed as an executive director on 24 June 2015.

Mr. Katsuhide Horiba and Mr. Yukio Yoshida were retired as an executive director on 24 June 2015.

(ii) Mr. Yoji Sato was re-designated from an executive Director to a non-executive Director on 23 June 2016.

(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 2017 (2016: 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 2017 (2016: Nil).

49. 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 2017 (2016: 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 2017 (2016: Nil).

50. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of directors on 25 May 2017.

Definitions

In this Annual Report (other than the Independent Director's Report and Consolidated Financial Statement), 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
"Chief Executive Officer"	chief executive officer of the Company
"Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Companies Act"	the Companies Act of Japan* (kaisha hou 会社法) (Act No. 86 of 2005, as amended)

"Company"	DYNAM JAPAN HOLDINGS Co., Ltd.* (株式会社ダイナムジャパンホールディングス), a stock company (kabushikigaisha 株式会社) incorporated in Japan with limited liability under the Companies Act on 20 September 2011 (registration number 0115-01-017114)
"Director(s)"	the director(s) of the Company
"Dynam"	DYNAM Co., Ltd.* (株式会社ダイナム), a stock company (kabushiki-gaisha 株式会社) incorporated in Japan with limited liability under the Companies Act on 25 July 1967 (registration number 0115-01-007357). Dynam is a wholly-owned subsidiary of the Company
"Dynam Business Support"	Dynam Business Support Co., Ltd.* (株式会社ダイナムビジネスサポート), a stock company (kabushiki-gaisha 株式会社) 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 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

Definitions

"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" or "DYJH 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
"ICT"	information and communication technology
"IFRS"	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)

"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
"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)
"Latest Practicable Date"	25 May 2017
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong 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* and *Shinrai no Mori*, 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 Hong Kong 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

“Nihon Humap”	Nihon Humap 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)
“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 31 March 2017, One Asia was interested in 80,000,000 Shares, representing approximately 10.44% 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)
“PRC”	The People’s Republic of China, excluding, for the purpose of this Annual Report, Hong Kong, Macau and Taiwan
“Remuneration Committee”	remuneration committee of the Company
“Reporting Period”	the period from 1 April 2016 to 31 March 2017

"Rich-O"	Rich-O Co., Ltd.* (リッチオ株式会社), a stock company (kabushiki-gaisha 株式会社) incorporated in Japan with limited liability on 1 August 2006 under the Companies Act (registration number 0115-01-011944)
"Rich-O 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)
"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)
"*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
"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*

TOP MANAGEMENT AND COMMITTEES

Executive Directors	Kohei SATO *(Chairman of the Board, President and Chief Executive Officer)* Haruhiko MORI
Non-executive Directors	Yoji SATO *(Senior Corporate Advisor of the Board)* Noriaki USHIJIMA
Independent Non-executive Directors	Ichiro TAKANO Mitsutoshi KATO Thomas Chun Kee YIP Eisho KUNITOMO Kei MURAYAMA
Audit Committee	Ichiro TAKANO *(Chairman)* Thomas Chun Kee YIP Eisho KUNITOMO
Remuneration Committee	Mitsutoshi KATO *(Chairman)* Kohei SATO Kei MURAYAMA
Nomination Committee	Mitsutoshi KATO *(Chairman)* Kohei SATO Kei MURAYAMA

BASIC 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
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 LLC *(Certified Public Accountants)*
Principal Bankers	Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation


ダイナム

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.*