



Annual Report 2018



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

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 2018

■ Editorial Policy

The Annual Report 2018 is a systematic summarization of financial and non-financial information, and is positioned as an important communication tool for understanding the Company.

The main contents of the report will go a long way toward providing a clear understanding of the Group's strengths and framework for value creation, while also containing information on medium-to long-term strategies and value creation stories.

Reference materials such as the international integrated reporting framework stipulated by the International Integrated Reporting Council and the Ministry of Trade, Economy and Industry's Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation were used in compiling this report, in conjunction with the cooperation of various departments to provide a cross-sectional view of the Group.

Annual Report 2018 can be utilized as a tool for dialogue with all trusted associates (stakeholders), including shareholders and investors, and the Group will strive to enhance its sustainable corporate value.

■ Reporting Period

This report covers the period from 1 April 2017 to 31 March 2018. However, some activities in or after April 2018 are also included.

■ Reporting Organizations

In principle, the Annual Report 2018 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 2018 will be published within three months of publication of Annual Report 2018.

■ Materiality and Comprehensiveness

Annual Report 2018 prioritizes reporting on important themes for the Group and society.

For comprehensive and detailed information, please additionally refer to the CSR Report 2018, which will be published within three months of the publication of Annual Report 2018.





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Consolidated Financial Results

The followings are major consolidated financial results for the year ended 31 March 2018.

Revenue and Income

Gross pay-ins

¥ **775,060** 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.

Revenue

¥ **152,092** mill.

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

¥ **9,458** mill.

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

¥ **17,349** mill.

Profit before income taxes

¥ **16,804** mill.

Net profit for the year

¥ **10,925** mill.

Consolidated Financial Position

The followings are major consolidated financial position as at 31 March 2018.

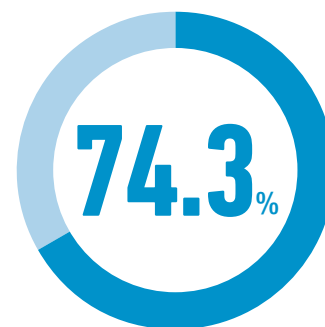
Total assets

¥ **184,971** mill.

Shareholder's equity (Net assets)

¥ **137,515** 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

¥**29,524**mill.

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.

Cash and cash equivalents at the end of the year

¥**40,533**mill.

Credit facility

¥**34,000**mill.

As at 31 March 2018

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

Annual dividend per share

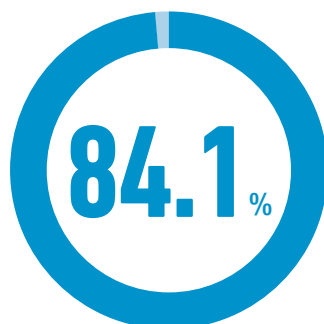
¥**12**

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 2018, 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 84.1%.

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).

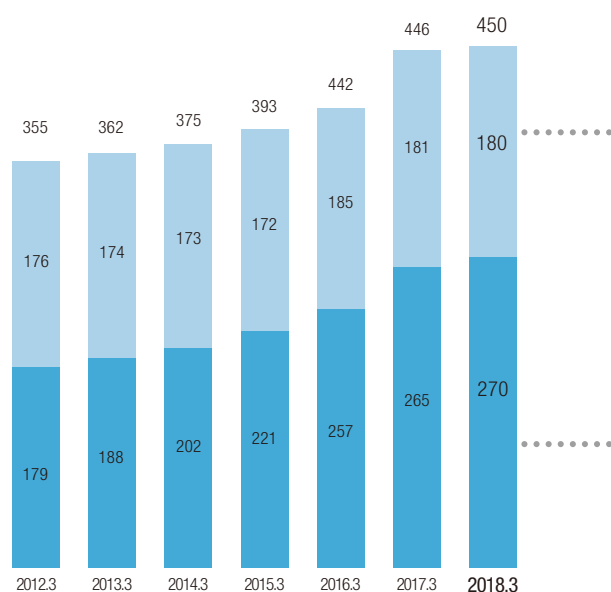
Numerical Data of Pachinko Hall Operation

Number of halls	Industry position	Total number of gaming machines	Proportion of low playing cost machines to total number of machines
450 halls	No.1	208,543 machines	71.1 %

As at 31 March 2018

► 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 27 halls operated by Yume Corporation and 6 halls operated by Cabin Plaza.

For the year ended 31 March 2018, we opened 6 low playing cost halls. In addition, we closed 2 low playing cost halls in line with a change in our business areas. Also, we converted 1 high playing cost halls to low playing cost halls. As a result, we had a total of 450 halls in operation as of 31 March 2018.

By hall type, we operate 180 high playing cost halls and 270 low playing cost halls, with low playing cost halls making up the majority at 60% 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.

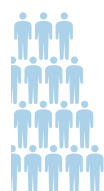
The national average proportion of low playing cost machines to total number of machines was 47.2% as of 31 December 2017. On the

other hand, the Group has developed this to 71.1% as of 31 March 2018.

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

Number of Group Employees _____



18,077
employees

Ratio of female employees _____

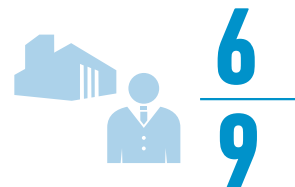


54.4%

According to research conducted by the Ministry of Internal Affairs and Communications of Japan, the pachinko industry plays a major role in job creation in Japan with an industry-wide workforce of around 250,000 employees. As of 31 March 2018, the Group had a workforce of 18,077 employees. The Group's creation of these jobs and retention of the employees have helped to enhance its recognition from society.

Configuration of the Board of Directors

Ratio of outside Directors
among Directors _____



Among the 9 Directors, there are 6 outside Directors prescribed under the Companies Act.

Numerical Data of Pleasant Working Environment

Ratio of employees returning to
work after childcare leave _____



94.1%

For the year ended 31 March 2018

Social Expenditure

Total amount of specified donations
and sports sponsorships _____



¥ 152 mill.

For the year ended 31 March 2018

Numerical Data of Environmental Protection

Total power consumption _____



345
mill. kWh

For the year ended 31 March 2018

CO₂ emissions _____



201
thou. t-CO₂

For the year ended 31 March 2018

Energy consumption rate _____



0.13
kl/m²

For the year ended 31 March 2018

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

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

The company name changed to 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

2001

100 halls

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

2018
As of
March 31, 2018

450
halls

2015

400
halls

2009

300
halls

2004

200
halls

2011~

Expanded sales by becoming a corporate group



2013 Dynam Hong Kong was established
2015 Acquired Yume Corporation into the Group



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



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

50 *Years*



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 31 March 2018.



The Company

As at 31 March 2018

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 37 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. 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 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.



Local Infrastructure

We aim to become “indispensable to local communities” and will continue to work together with all trusted associates to continue to create value.

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 (from 1 April 2017 to 31 March 2018), the pachinko hall industry continued to experience a harsh operating environment as the number of customers decreased, mainly in halls with high playing costs, and ball rental fee revenue continued its downward trend. Moreover, efforts by supervisory agencies to curtail the gambling content of game machines has advanced and we anticipate that the gambling content of the pachinko industry will be further reduced going forward.

In such an environment and as an effort to improve operations, the Group adopted a key policy of prioritizing hall creation from the customers' viewpoint and promoting sales focused on customers and implemented various sales measures including refurbishing halls, all as an initiative for being everyday entertainment.

As a result of the success of this initiative, operating profit of ¥17,349 million was recorded for the fiscal year ended 31 March 2018, an increase of ¥1,450 million, or 9.1%, year on year, in spite of revenue decreasing in a reflection of the harsh operating environment.

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

The entire Group will continue to work as one under sound management.

Chairman of the Board and
Chief Executive Officer

Kohei Sato

CHAIN STORE MANAGEMENT AND COST CUTTING TO REALIZE OUR VISION OF BEING EVERYDAY ENTERTAINMENT

Our vision at the Group is to reinvent pachinko gaming as a form of everyday entertainment that everyone can easily enjoy. In short, this means that the type of pachinko we aspire to provide is everyday entertainment that is part of people's lifestyles, like a convenience store, supermarket or pub, rather than the occasional enjoyment of spending large amounts of money betting at a casino.

To bring this about, we must take the customers' viewpoint and manage our business so that our customers consider the time and money they spend in our halls are at acceptable levels for everyday entertainment.

The Group's basic policy is to engage in chain store management and it implements multiple-hall development with a focus on halls with low playing costs. We have successfully leveraged the effects of economies of scale by strategically concentrating on opening halls with standardized floor plans and game machine placements in suburban locations in regions with populations of around 50,000, as opposed to large-scale hall openings in urban areas.

In regard to game machines, which carry a significant burden in terms of cost, we utilize secondhand machines procured at low cost, as well as use a nationwide network of 16 distribution centers to concentrate game machines in set areas, which stifles replacement costs.

Strategic use of systems employing ICT is essential in improving services and productivity. Data obtained from systems not only enables ascertaining customer trends, it can also be employed for operational efficiency in such ways as improving hall management and proposing sales strategies.

Furthermore, yet another matter is the important initiative of private brand machines, in which we are moving ahead in joint development with manufacturers. Our first private brand machine was introduced in the fiscal year ended 31 March 2018 and is called Goraku (the "Entertainment") and incorporates the concept of everyday entertainment. Looking ahead, we expect that other companies within the industry will take part in developing their own private brand game machines and this reform will spread throughout the entire industry.

In ways such as these, we are building a low-cost operation based on chain store management at all halls, which enables us to entertain customers with games with low playing costs.

We want to continue striving to have pachinko accepted as everyday entertainment and thus ensure its sustainable development.

EMBRACING A GOAL OF 1,000 HALLS TO BECOME INDISPENSIBLE TO LOCAL COMMUNITIES

The axis of the Group's management and its core is to make pachinko indispensable to local communities. To turn pachinko halls into infrastructure requires widespread social acceptance. We need to have people who don't play pachinko thinking that it's acceptable for pachinko halls to be in towns. Even better would be to have them saying that a town is better off for having a pachinko hall.

Group company Dynam discussed among its in-house departments about what pachinko needs to do to become social infrastructure, and itemized the views and values that had never been clearly stated hitherto as it was considered tacit knowledge. The Company then set the 10 Goals to Make Pachinko into a Societal Infrastructure as medium- to long-term action guidelines and employees are working in unity to achieve them.

Incidentally, there are currently around 3,200 companies operating pachinko halls in Japan and the 10 largest companies have a share of about 17% of the market. The pachinko hall industry has no dominant company with an overwhelming market share, but instead there is a structurally fragmented industry with many small operators.

A crucial issue in an industry with these characteristics, when it comes to the goal of being indispensable as local infrastructure, is having a sales size large enough to have an influence over the entire industry. The Group's total number of halls is 450 as of the end of March 2018. We

want to expand this number beyond 1,000 halls in the future. This is by no means an easy target, but we shall tackle and achieve this lofty goal over the medium- to long-term.

As a listed company, the Group can be said to be in the prime position for further expanding market share. There are risks that accompany expanded market share, therefore management is also important. For example, consolidating an acquired company within the Group not only involves raising the rate of return from M&A investment, but also requires accurate estimation of the time and cost required for human resource training and treading carefully.

RAISING VALUE FOR ALL TRUSTED ASSOCIATES TO ENHANCE CORPORATE VALUE

The Group calls 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. We believe that overall corporate value will improve only when we have met their expectations and raised our perceived value among various trusted associates.

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 of examining legal matters. The Group has faced the social problem of "dependence" and is advancing creation of environments in which customers can enjoy playing pachinko in safety and security.



Furthermore, our pachinko halls are also proactively building stronger relationships with people through active participation in community-organized events and cleanups, as well as providing support in the wake of disasters.

The Group is listed on the Hong Kong Stock Exchange, which not only requires listed companies to provide financial information but obliges them to disclose non-financial information such as ESG information. Over the medium- to long-term, it is important to create a more open industry through efforts such as communicating the positive effects that pachinko can have on wider society.

The Group aims to enhance corporate value by comprehensive disclosure of information through dialogues and by considering and adopting requests and opinions obtained from trusted associates to improve management.

FURTHER GROWTH THROUGH TAKING ON THE CHALLENGE OF INNOVATION

More than 50 years have passed since the establishment of Group subsidiary Dynam.

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.

The Group did not arrive at its current situation by itself. We have been able to grow to this extent through 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 number of people playing pachinko has decreased in recent years. We think there are 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 think one of the important elements being demanded of pachinko hall operations is taking on the challenge of innovation.

We want to face up to the changing management environment and create new value for pachinko halls to generate new customers and clarify our position as local infrastructure to solidify our earnings base. To achieve that, we shall focus on training next-generation leaders who can resolutely take on the challenge of innovation.

The Group's corporate philosophy is "a centurial commitment to building trust and encouraging dreams". The "centurial" that we refer to symbolize our perpetual growth and development.

Looking ahead to the next 50 years, the Group will continue to aim for the growth of the pachinko hall operation business through chain store management and taking on the challenge of innovation, as well as the cultivation of businesses to create new growth while continuing to develop together with trusted associates.

Kohei SATO

Chairman of the Board and
Chief Executive Officer

23 May 2018

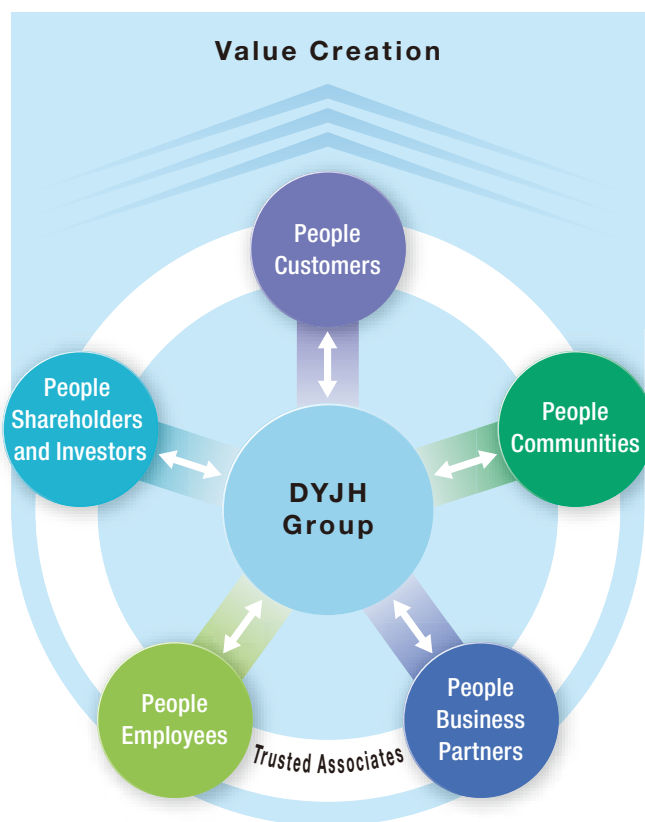


We will continue to increase corporate value while aiming to be indispensable to local communities (local infrastructure) and continuing to improve value for all trusted associates.

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

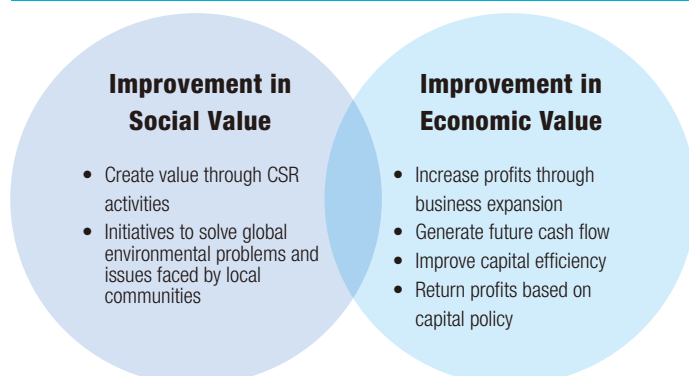


We believe that by meeting the expectations of various trusted associates and raising what each of these people consider to be our value will enhance the overall corporate value.

※ 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.

► Improvements 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.

► Living with Local Communities

■ Aiming to Become Indispensable to Local Communities (Local Infrastructure)

The Group engages in economic activities deeply rooted in communities through its core business of pachinko hall operations.

Pachinko hall operations are made possible not just by the customers who come to the halls, but through the support of all trusted associates such as local community residents, business partners and employees.

Without the development of local communities, it is not possible for the Group to develop.

We aim to gain recognition from trusted associates and become indispensable to local communities (local infrastructure). We believe this will lead to the Group developing together with the local communities.

To become local infrastructure, it is indispensable to use the Group's core businesses to confront issues facing society and to build a relationship of trust with local communities. We also believe it's important to grow together with the community and develop business while continuing to strive for constant improvement of corporate value.

■ Setting Specific Goals to Become Societal Infrastructure

Until now, the Group has aimed to make pachinko into infrastructure based on the vision of providing everyday entertainment that anyone can enjoy in a comfortable environment. However, there was no clear way to know whether pachinko has become infrastructure, nor has any specific action guidelines been put down.

We discussed among in-house departments about what it is for pachinko to be a societal infrastructure, and we itemized the views and values that had never been clearly stated hitherto as it was considered tacit knowledge. The Group then set the 10 Goals to Make Pachinko into a Societal Infrastructure as medium- to long-term action guidelines.

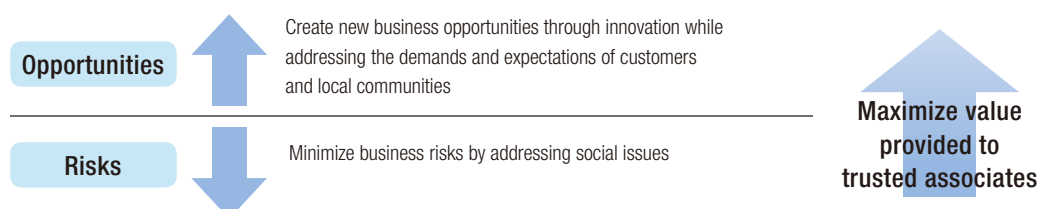
Making Pachinko into Infrastructure



► 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.



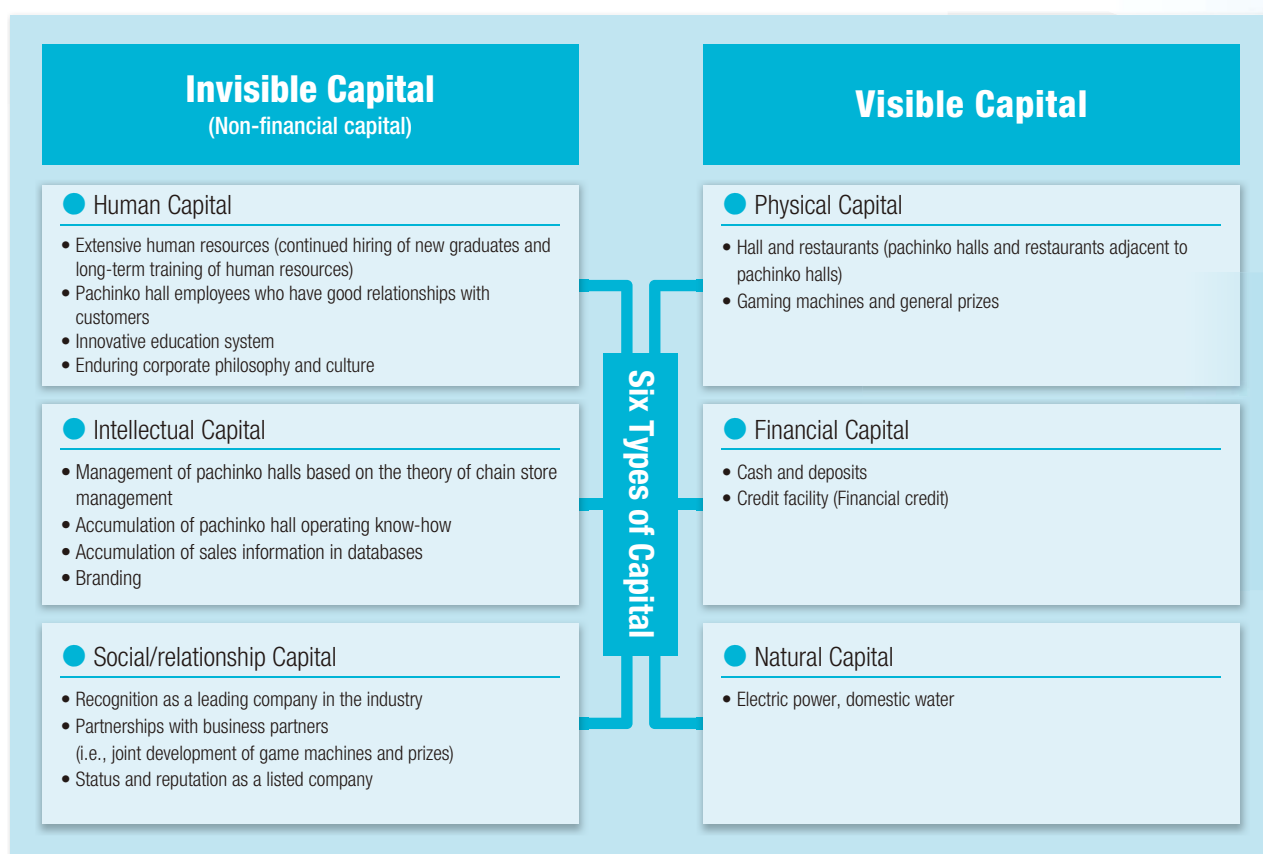
A Cycle of Value Creation and Sustainable Development

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.

► 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.



Sustainable Growth

Improvement of corporate value

Value Creation
Improving value to all trusted associates

Business Model Framework for value creation

Strategy & Value Drivers

Execution of chain store management

- Multiple-hall development
- Low-cost operations
- Development of private brand machines
- 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

Spreading the corporate culture through all employees
Challenge ► Innovation

Operational Excellence

Output Value to all trusted associates

To customers

- Experiential value as an everyday entertainment

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

To employees

- Environments where leaders in value creation (employees) can work cheerfully

To business partners

- Shared prosperity based on partnerships

To shareholders and investors

- Investment return
(Capital gain, Income gain)

Outcome

Improvement in both social value and economic value through CSR

Improvement in Social Value

Local Infrastructure

- Create value through CSR activities
- Become indispensable to local communities

Improvement in Economic Value

Development of the Group

- Increase profits through business expansion
- Generate future cash flow
- Improve capital efficiency
- Return profits based on capital policy

Input Management Resources (Six Types of Capital)

Trust

Expansion of
management
resources for
further
development

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.

► Initiatives to Realize Everyday Entertainment

Our vision is to reinvent pachinko gaming as a form of everyday entertainment that everyone can easily enjoy, as a regional infrastructure. To realize everyday entertainment, we must manage our business so that our customers consider the time and money they spend in our halls are at acceptable levels for everyday entertainment.

Therefore, the Group practices chain store management as one of its management policies.

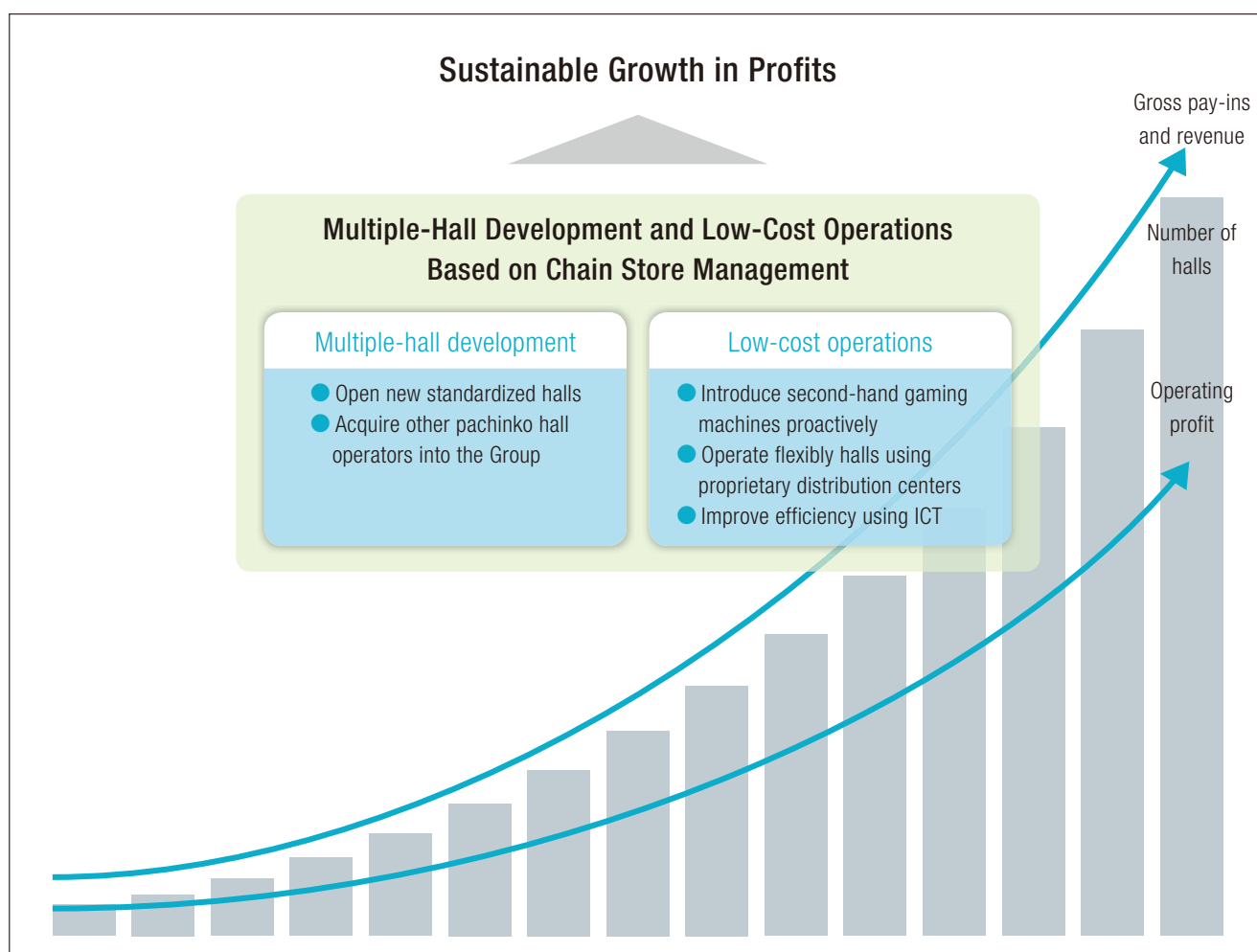
We are building a framework that enable us to fully leverage the advantages derived from multiple-hall development, and manage all hall operations at low cost.

Managing our pachinko halls at low cost leaves space to enable us to entertain customers with low playing cost games, which in turn leads to the realizing of everyday entertainment.

► 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 multiple-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.

Development and Rolling Out of Private Brand Machines

As one of the important initiatives related to chain store management, the Group develops its own private brand game machines ("PB machines"). Dynam continues to maintain its long-standing aim of providing pachinko gaming as an everyday entertainment that everyone can enjoy easily. As one method to achieve this, Dynam has been developing game machines in collaboration with the game machine manufacturers, based on the massive volume of gameplay data that we possess. Dynam's PB machines have been designed to enable customers to experience the original pleasure of pachinko with only small amounts of money, thereby enabling them to enjoy the game for long periods. Looking ahead, we will continue to develop PB machines to enhance the variation in game machines in our halls that can be easily enjoyed with small amounts of money. The new brand that we have started to introduce in the fiscal year ended 31 March 2018 is called Goraku and it incorporates the concept of everyday entertainment.



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

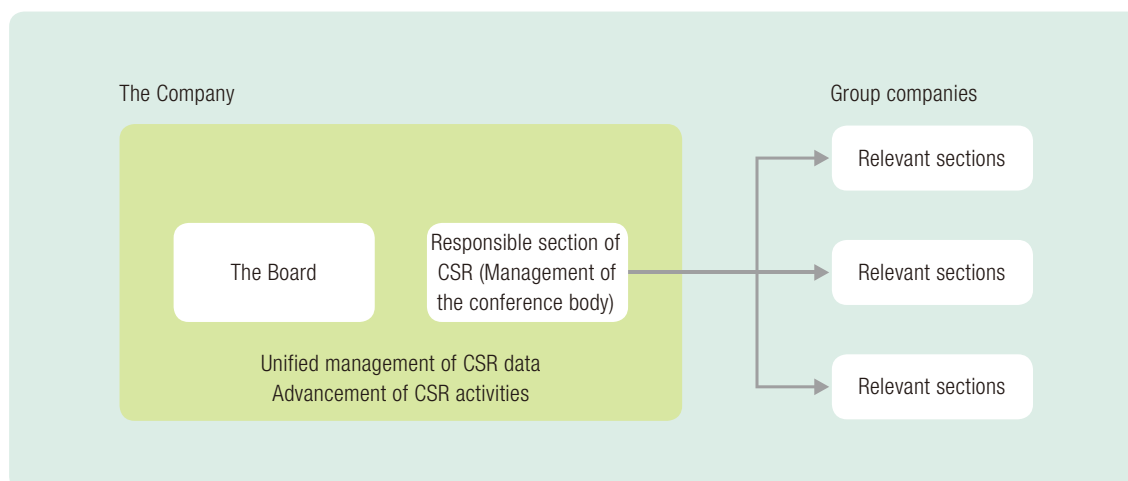
We will contribute to the development of local communities.

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.

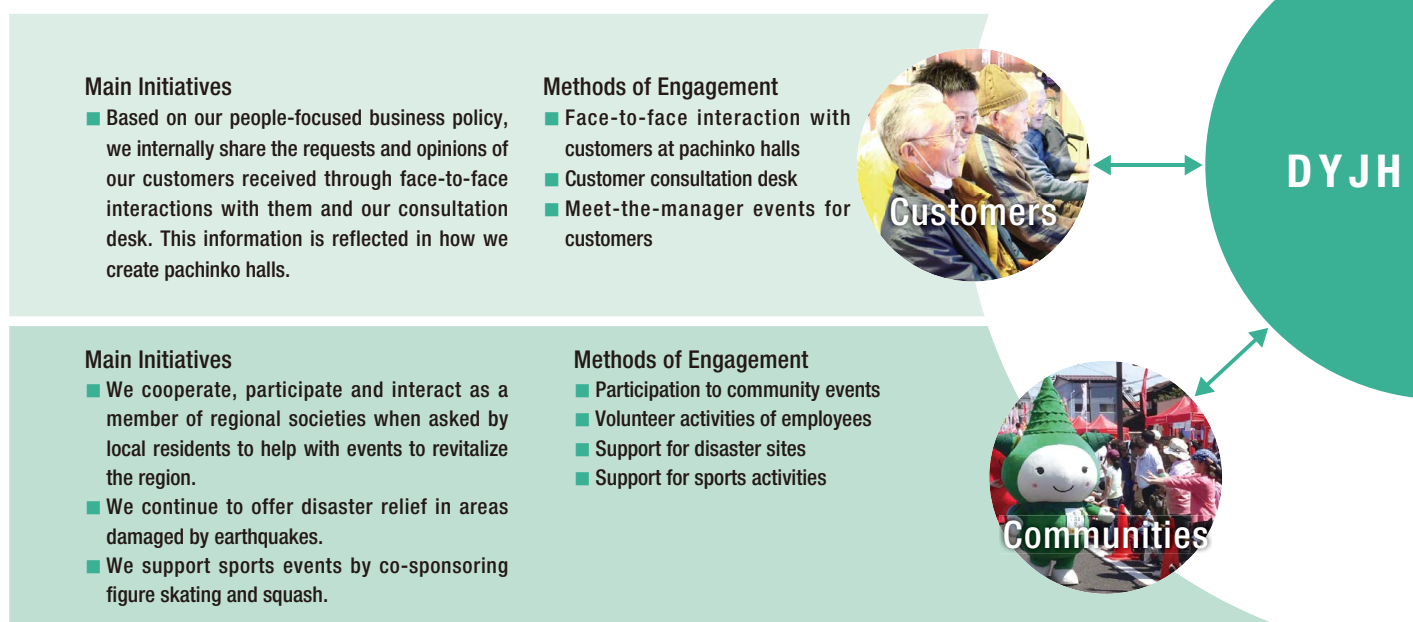


Naming our stakeholders “trusted associates,” we build relationships by disclosing information and engaging in dialogue.

► 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.

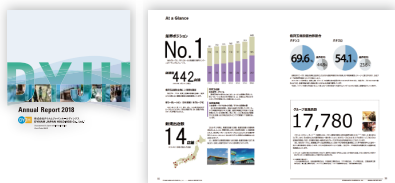
While properly disclosing information, the Group uses discussions with stakeholders as an opportunity to examine whether its business activities meet their demands and expectations, and feeds back this information in business activities.



► 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.



※ Trusted Associates

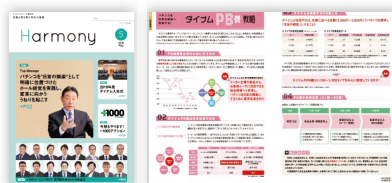
In disclosing this annual report, the Group refers to customers, local communities, business partners, employees, and Shareholders and investors as "trusted associates," but this does not limit who may be regarded as a trusted associate. Our basic stance is that the phrase is a broad concept that includes 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)



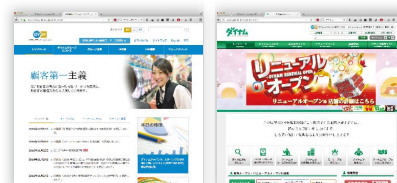
We prepare this information booklet for landowners and local residents. It includes a greeting from executive management, special feature about a region, a report on social contribution activities, financial information, and other topics of interest about the Group.

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.

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.

Process for Identifying and Deciding Priority CSR Topics

► 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 is an attachment to the rules for companies listed on the Hong Kong Stock Exchange. It contains guidelines for the disclosure of ESG information.

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.

ISO 26000

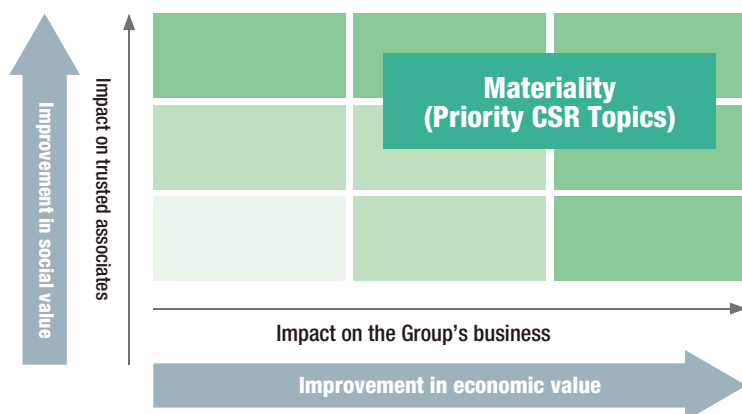
ISO 26000 is the Guidance for Social Responsibility issued by the International Organization for Standardization (ISO).

■ International Goals

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	Specific initiatives	Relationship between our CSR and the goals	
			Dynam's goal	International goal
			Making Pachinko into Infrastructure 10 Goals	SUSTAINABLE DEVELOPMENT GOALS
E Environment	Environment	<ul style="list-style-type: none"> ● Climate change and recycling society ● Consideration for the regional environment 	<ul style="list-style-type: none"> ● Appropriate management of energy usage ● Proper disposal of waste to realize a recycling society ● Consideration for the local environment 	<p>⑩ Harmonious existence with the community</p>    
S Social	Customers	<ul style="list-style-type: none"> ● Improvement of customer satisfaction ● Provision of the place for gaming with enjoyment and safety 	<ul style="list-style-type: none"> ● Aiming to make pachinko gaming as everyday entertainment 	<p>① Hall numbers</p>  <p>② Customer numbers</p>  <p>③ Playing cost</p>  <p>④ Product composition</p>  <p>⑤ Product development (private brands)</p>  <p>⑥ Service</p>  <p>⑦ Playing environment</p>  <p>⑧ Standardization</p> 
	Communities	<ul style="list-style-type: none"> ● Pachinko, living with communities 	<ul style="list-style-type: none"> ● Contribution to society through our core business ● Local infrastructure 	<p>⑩ Harmonious existence with the community</p>       
	Business Partners	<ul style="list-style-type: none"> ● Supply Chain Management ● Development of value chain 	<ul style="list-style-type: none"> ● Practice of supply chain management ● Creation of Value in Business Partnerships 	<p>⑤ Product development (private brands)</p>     
	Employees	<ul style="list-style-type: none"> ● Diversity and development of human resources ● Pleasant workplace for employees 	<ul style="list-style-type: none"> ● 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 	<p>⑨ Utilization of human resources</p>      
	Shareholders and Investors	<ul style="list-style-type: none"> ● Information disclosure and transparency of management ● Return to shareholders 	<ul style="list-style-type: none"> ● 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 pages 41–48 for details. Internal Control, Risk Management, Compliance		



We realize that a large number of the 17 Sustainable Development Goals (SDGs), which were adopted by the United Nations to guide efforts to address global issues, coincide with the CSR activities the Group is advancing with the goal of achieving sustainability.

For detailed information on our initiatives related to environmental (E) and social (S) matters, please refer to the CSR Report 2018, which will be published within three months of the publication of Annual Report 2018.

Executive Director

Executive Director, Chairman of the Board, President and Chief Executive Officer

Mr. Kohei SATO (Age: 63)

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, President 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.

Non-executive Director

Non-executive Director, Senior Corporate Advisor of the Board

Mr. Yoji SATO (Age: 72)

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 Foundation (present)
Sep 2011	Executive Director and CEO of the Company
Jan 2013	Director of Dynam Hong Kong (present)
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. Tatsuji FUJIMOTO (Age: 57)

Jan 1986	Joined The Daiiei, Inc.
Dec 2001	Joined Dynam
Mar 2009	Head of Purchasing Department of Dynam
Mar 2012	Head of Logistics Department of Dynam
Jun 2015	Corporate Executive Officer and Head of Logistics Department of Dynam
Mar 2016	Corporate Executive Officer and Head of Purchasing Department of Dynam
Jun 2016	Director of Dynam
Jan 2017	Director and Head of Information Control Department of Dynam
Jun 2017	President and Representative Director of Dynam (present)
Jun 2017	Non-executive Director of the Company (present)

Mr. Fujimoto graduated from Kanagawa Prefectural Fujisawa Technical High School in March 1979.

Non-executive Director

Mr. Noriaki USHIJIMA (Age: 68)

Apr 1973	Joined Tokyo Stock Exchange, Inc.
Jun 2004	Director and Executive Officer of Jasdac Securities Exchange, Inc.
Jul 2006	Advisor of Jasdac 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: 62)

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)
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)
Jun 2017	Outside Director, Committee for audit of Hikari Tsushin Inc. (present) (position change due to transition to a company with an audit and supervisory committee)

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

Independent non-executive Director

Mr. Mitsutoshi KATO (Age: 60)

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: 57)

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. Kiyohito KANDA (Age: 53)

Oct 1991	Joined Yamaichi Securities Company, Limited
Dec 1992	Passed certified tax accountant examination
Jul 1995	Established Kanda Kiyohito Tax Accountant Office (present)
Aug 1996	Career school instructor at Adecco Ltd.
May 1998	Instructor, Training Center of the Board of Audit of Japan
Apr 2011	Part-time teacher, Faculty of Business Administration, Meiji University
Jun 2017	Independent Non-executive Director of the Company (present)

Mr. Kanda graduated from Kanagawa University in March 1988 with a bachelor's degree in economics. Graduated from the Tokyo CPA Accounting College in March 1989 after studying accounting and completed a period as a special research student at the same institution.

Independent non-executive Director

Mr. Kei MURAYAMA (Age: 63)

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, President and Chief Executive Officer Mr. Kohei SATO (Age: 63)

The biography of Mr. Kohei Sato is provided on page 28 of this report.

Executive Officer Mr. Hisao KATSUTA (Age: 66)

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: 61)

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. Mr. Sakamoto has 36 years' experience in the field of personnel management affairs.

Executive Officer Mr. Yoshiyuki MIZUTANI (Age: 61)

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 36 years' experience in the field of finance and accounting.

Executive Officer Mr. Seiji OBE (Age: 53)

Apr 1987	Joined Yamaichi Securities Company, Limited
Apr 1998	Joined Dynam
Sep 2005	Head of Finance Department of Dynam
Jun 2011	Head of Management Planning Department and Head of Finance Department of Dynam
Apr 2015	Seconded to Head of Planning and Coordination Group of the Company
Dec 2016	Seconded to Business Management Group of the Company
Jun 2017	Executive Officer of the Company (present)

Mr. Obe graduated from Meiji University in March 1987 with a bachelor's degree in business administration.

Executive Officer Mr. Kimiharu SATO (Age: 43)

Apr 1998	Joined Dynam
Apr 2010	Zone Manager of Fukuoka Zone of Dynam
Jun 2013	Head of Sales Policy Department of Dynam
Dec 2014	Head of Sales Policy and Analysis Department of Dynam
Mar 2015	Zone Manager of Tokyo Zone of Dynam
Jun 2016	Executive Officer and Head of Analysis and Strategy in Sales Coordination Department of Dynam
Dec 2016	Head of Analysis and Strategy Department and Advertising and Promotion in Sales Coordination Department of Dynam
Apr 2017	Head of Sales Strategy in Sales Coordination Department of Dynam
Jun 2017	Director and Head of Sales Strategy Department of Dynam (present)
Nov 2017	Director of the Company (present)

Mr. Sato graduated from Akita Keizaihoka University in March 1997 with a bachelor's degree in law.



The Board is pleased to present this 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. The principal activities of its major subsidiaries are set out in note 44 to the Financial Statements.

■ 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. 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 52 to 61 of this 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 27 of this 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 27 of this report.

The detailed information on our initiatives related environmental (E) and social (S) matters will be disclosed in the CSR Report 2018, which will be published within three months of the publication of this 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	In the pachinko hall market, there are the 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 obstruct 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 the Amusement Business Act, various restrictions may be brought to our pachinko hall operation.
Other risks	Natural disaster	Because of the geographical nature of the land 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 on pages 66 to 140 of this report.

■ DECLARATION OF FINAL DIVIDEND

The Board proposed to declare a final dividend of ¥6 per ordinary Share for the Reporting Period on 23 May 2018, and the final dividend will be payable on 22 June 2018 to the Shareholders whose names appear on the Company's share register at close of business on 4 June 2018. Based on the assumption that 765,985,896 Shares shall be in issue as at 4 June 2018, it is expected that the final dividend payable will amount to approximately ¥4,596 million (equivalent to approximately HK\$339 million). 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 Hong Kong dollar will be based on the average currency exchange rates prevailing five business days immediately before 23 May 2018.

■ 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 pages 50 to 51 of this 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 to the Financial Statements.

■ BORROWING

Particulars of borrowing of the Group as at 31 March 2018 are set out in note 32 to the Financial Statements.

■ SHARE CAPITAL

Details of movements in the share capital for the Reporting Period are set out in note 40 to the Financial Statements.

■ RESERVES

Details of movements in the reserves of the Company for the Reporting Period are set out in note 42 to the Financial Statements.

■ DISTRIBUTABLE RESERVES

The Company's reserves for distribution refer to retained profits and other capital surplus. In the opinion of the Directors, as at 31 March 2018, the Company had reserves available for distribution to its Shareholders of ¥66,302 million (2017: ¥66,921 million).

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

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

■ PUBLIC FLOAT

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

As of the date of this report, based on the information publicly available to the Company and to the best of the Board's knowledge, the Company has maintained the percentage of public float as accepted by the Hong Kong Stock Exchange during the period from 1 April 2017 to 31 March 2018.

■ 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 report are as follows:

Executive Directors

Kohei SATO reappointed on 22 June 2017

Haruhiko MORI retired on 22 June 2017

Non-executive Directors

Yoji SATO reappointed on 22 June 2017

Tatsuji FUJIMOTO appointed on 22 June 2017

Noriaki USHIJIMA reappointed on 22 June 2017

Independent Non-executive Directors

Ichiro TAKANO reappointed on 22 June 2017

Mitsutoshi KATO reappointed on 22 June 2017

Thomas Chun Kee YIP reappointed on 22 June 2017

Kei MURAYAMA reappointed on 22 June 2017

Kiyohito KANDA appointed on 22 June 2017

Eisho KUNITOMO retired on 22 June 2017

■ DIRECTORS' BIOGRAPHIES

Directors' biographies are set out in the "Biographies of Directors and Senior Management" on pages 28 to 30 of this 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).

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

As at the end of the Reporting Period, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which should be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or was required, pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange, are as follows:

(i) Interests in the Company

Name	Nature of Interest/Capacity	Number of Shares ⁽¹⁾	Approximate Percentage of Interests in the Company ⁽²⁾
Mr. Yoji SATO	Interest of controlled corporations ⁽³⁾	258,332,560	
	Interest of spouse ⁽³⁾	760	
	Other ⁽⁴⁾	197,571,800	
		455,905,120	59.519%
Mr. Kohei SATO	Beneficial Owner ⁽⁵⁾	55,139,680	
	Other ⁽⁴⁾	400,765,440	
		455,905,120	59.519%
Mr. Tatsuji FUJIMOTO	Beneficial Owner	209,300	0.027%
Mr. Ichiro TAKANO	Beneficial Owner	20,000	0.003%
Mr. Noriaki USHIJIMA	Beneficial Owner	414,000	0.054%

■ 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. Kei MURAYAMA and Mr. Kiyohito KANDA 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 during the Reporting Period and has remained independent as of the date of this report.

Notes:

- (1) All interests stated are long positions.
- (2) There were 765,985,896 Shares in issue as at the end of the Reporting Period.
- (3) Out of the total 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 Foundation (Hong Kong) Co., Limited ("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) Each 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) (collectively, the "Sato Family Members") is a party acting in concert with Mr. Yoji SATO, SAC and Rich-O and each other to obtain or consolidate the holding of 30% or more of the Company, and is therefore deemed to be interested in the Shares in which Mr. Yoji SATO or any other Sato Family Member is interested, and Mr. Yoji SATO is deemed to be interested in the Shares in which any Sato Family Member is interested.
- (5) Mr. Kohei SATO, one of the Sato Family Members, has been reappointed as an executive Director on 22 June 2017 to serve concurrently as chief executive of the Company. He is beneficially interested in 55,139,680 Shares.

(ii) Interests in the associated corporation

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

Save as disclosed above, to the best knowledge of the Directors, as at the end of the Reporting Period, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required, pursuant to the Section 352 of the SFO, to be recorded in the register of the Company or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

■ SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the end of the Reporting Period, 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 as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Nature of Interest/Capacity	Number of Shares ⁽¹⁾	Approximate Percentage of Interests in the Company ⁽²⁾
SAC	Beneficial owner ⁽³⁾	162,522,560	
	Interest of controlled corporation ⁽³⁾	95,810,000	
		258,332,560	33.725%
Rich-O	Beneficial owner ⁽³⁾	95,810,000	12.508%
One Asia Foundation	Beneficial owner	80,000,000	10.444%
Mrs. Keiko SATO	Beneficial owner	760	
	Interest of spouse ⁽⁴⁾	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 the end of the Reporting Period.
- (3) See Note (3) on page 36 of this report.
- (4) Mr. Yoji SATO is Mrs. Keiko SATO's husband and therefore, pursuant to the SFO, she is deemed to be interested in the Shares held by him.
- (5) See Note (4) on page 36 of this report.

Save as disclosed above, as at the end of the Reporting Period, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which were required, pursuant to section 336 of the SFO, to be recorded 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 as at the end of the Reporting period.

■ INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN A COMPETING BUSINESS

Directors are not aware of any business in which the Directors or the controlling Shareholders are interested that had competed or might compete with the business of the Group.

■ CONNECTED TRANSACTIONS

The Directors confirm that during the fiscal year ended 31 March 2018, the Group did not have any connected transactions and continuing connected transactions as defined under the Listing Rules.

■ DIRECTOR'S MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS

No transactions, arrangements and contracts of significance in relation to the Group's business to which any of the Group was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at any time during the Reporting Period or as at the end of the Reporting Period.

■ CONTROLLING SHAREHOLDERS' INTEREST

No contracts of significance between the Company or any of its subsidiaries and a controlling Shareholder or any of its subsidiaries or any contracts of any significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries subsisted at any time during the Reporting Period or as 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 50 and 19 respectively to the Financial Statements.

■ 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 arranged appropriate liability insurance coverage for Directors and executive officers 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.

■ 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	
	2018	2017
The largest supplier:		
G-prize supplier	52.3%	50.9%
General prize supplier	53.1%	51.2%
Pachinko and pachislot machine supplier	18.7%	21.7%
	Year ended 31 March	
	2018	2017
Top five suppliers:		
G-prize supplier	96.0%	95.9%
General prize supplier	85.7%	81.2%
Pachinko and pachislot machine supplier	44.5%	49.0%

■ DONATIONS

During the Reporting Period, the Group made donations of approximately ¥129 million.

■ PENSION SCHEME

The Company and its subsidiaries in Japan have established defined contribution pension system and retirement lump sum grants as our retirement benefit scheme. Also, Dynam Hong Kong has introduced mandatory provident fund scheme as a retirement protection scheme for their employees in Hong Kong.

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

In the opinion of the Directors, the Company has complied with the Code throughout the Reporting Period, save for certain derivations. The corporate governance report is set out on pages 41 to 48 of this report.

■ 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 enquiries have 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 pages 41 to 48 of this report.

■ AUDITOR

The Financial Statements have been prepared in accordance with the international financial reporting standards and audited by PricewaterhouseCoopers Aarata LLC, who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

■ ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

The CSR Report 2018 for the fiscal year ended 31 March 2018 will be published separately no longer than three months after the publication of this annual report.

■ EVENTS AFTER THE REPORTING PERIOD

There is no important event affecting the Group which has occurred since the end of the Reporting Period.

By order of the Board

Kohei SATO

Chairman of the Board

Japan, 23 May 2018

■ 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 an annual general meeting (the "AGM") should be sent to the Shareholders at least 20 clear business days before the meeting. The AGM for the year ended 31 March 2017 was held on 22 June 2017, while the AGM notice was dispatched on 31 May 2017. 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 2017). 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 21 June 2018 and its notice will be dispatched on 30 May 2018, 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. Throughout the Reporting Period, the roles of the chairman and chief executive were performed by the same individual, Mr. Kohei SATO, and were not separated.

However, the Board believes that Mr. Kohei SATO, in his dual capacity as the chairman of the Board and chief executive, 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 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, executive officers and employees of the Company who are likely to have access to unpublished inside information of the Group. The Company has made specific enquiries to all of the Directors, and all 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 and other executive officers except that authority is reserved for the Board to approve fundamental business strategies and policies, and all important matters such as interim and annual financial statements, dividend policy, annual budgets, business plans, internal control system, material transactions and other significant

operational matters. The delegated functions and responsibilities are periodically reviewed. The executive officers are responsible for contributing to the success of the implementation of the policies laid down by the Board in connection with the conduct of the businesses of the Group. The executive officers are being held accountable for reporting to the Board more than once in every three months.

The Board currently consists of nine Directors, comprising one executive Director, three non-executive Directors and five independent non-executive Directors. Pursuant to the Articles of Incorporation, each of the executive Directors, non-executive Directors and independent non-executive Directors was appointed for a term of one year at the AGM of the Company held in June 2017. 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 a non-executive Director and Mr. Kohei SATO who is an executive Director, the chief executive and chairman of the Board are brothers.

During the Reporting Period, 13 Board meetings and 1 Shareholder's meeting were held and the attendance of each Director is set out as follows:

Name of Director	Number of meetings held/attended	
	Board meetings	Shareholders' meetings
Executive Director		
Mr. Kohei SATO (Chairman of the Board)	13/13	1/1
Mr. Haruhiko MORI (retired on 22 June 2017)	3/3	1/1
Non-executive Director		
Mr. Yoji SATO	13/13	1/1
Mr. Tatsuji FUJIMOTO (newly appointed on 22 June 2017)	10/10	1/1
Mr. Noriaki USHIJIMA	13/13	1/1
Independent Non-executive Director		
Mr. Ichiro TAKANO	13/13	1/1
Mr. Mitsutoshi KATO	13/13	1/1
Mr. Thomas Chun Kee YIP	13/13	1/1
Mr. Kei MURAYAMA	13/13	1/1
Mr. Kiyohito KANDA (newly appointed on 22 June 2017)	10/10	1/1
Mr. Eisho KUNITOMO (retired on 22 June 2017)	3/3	1/1

■ DIRECTOR'S INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Pursuant to the code provision A.6.5 of the Code, all 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. The Company has arranged in house trainings for Directors in the form of attending seminars and reading materials. A summary of training received by Directors for the Reporting Period according to the records provided by the Directors is as follows:

Name of Directors	Training on corporate governance, regulatory development and other relevant topics
Mr. Kohei SATO	✓
Mr. Yoji SATO	✓
Mr. Tatsuji FUJIMOTO	✓
Mr. Noriaki USHIJIMA	✓
Mr. Ichiro TAKANO	✓
Mr. Mitsutoshi KATO	✓
Mr. Thomas Chun Kee YIP	✓
Mr. Kei MURAYAMA	✓
Mr. Kiyohito KANDA	✓
Mr. Haruhiko MORI	✓
Mr. Eisho KUNITOMO	✓

■ AUDIT COMMITTEE

The Company has established the audit committee of the Company (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. Kiyohito KANDA.

The primary duties of the Audit Committee are to review the financial information and the auditor's reports and monitor the integrity of the financial statements, to oversee the financial reporting process, risk management and internal control systems, and the audit process, and to perform other duties and responsibilities as assigned by the Board. The Audit Committee also monitors the Directors in fulfilling their fiduciary duties.

The Audit Committee met 15 times during the Reporting Period. The attendance of each member is set out as follows:

Name of members	Number of attendance
Mr. Ichiro TAKANO	15/15
Mr. Thomas Chun Kee YIP	15/15
Mr. Kiyohito KANDA (appointed on 22 June 2017)	11/11
Mr. Eisho KUNITOMO (ceased as a member on 22 June 2017)	4/4

To summarize the work performed by the Audit Committee during the Reporting Period, the Audit Committee had (1) reviewed the audited consolidated financial statements for the year ended 31 March 2017 and the unaudited interim financial statements for the six month ended 30 September 2017 with recommendations to the Board for approval; (2) reviewed risk management and internal control system of the Group; and (3) reviewed and approved the remuneration and terms of engagement of the Company's auditor, and made recommendations to the Board and the Shareholders on the reappointment of the Company's auditor.

■ REMUNERATION COMMITTEE

The Company has established the remuneration committee of the Company (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 evaluate the performance of all Directors and senior management of the Company, and determine the remuneration packages of all Directors and other senior management.

The Remuneration Committee met 8 times during the Reporting Period. The attendance of each member is set out as follows:

Name of members	Number of attendance
Mr. Kohei SATO	8/8
Mr. Mitsutoshi KATO	8/8
Mr. Kei MURAYAMA	8/8

To summarize the work performed by the Remuneration Committee during the Reporting Period, the Remuneration Committee had (1) reviewed and determined the remuneration packages of newly appointed Directors and other senior management of the Company; and (2) reviewed and determined the bonus and remuneration packages of Directors and other senior management of the Company.

Details of the Directors' remuneration are set out in note 50 to the Financial Statements in this report.

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 ¥4,062,015 to ¥6,770,000)	0
HK\$500,001 to HK\$1,000,000 (equivalent to ¥6,770,014 to ¥13,540,000)	2
HK\$1,000,001 to HK\$2,000,000 (equivalent to ¥13,540,014 to ¥27,080,000)	3
HK\$2,000,001 to HK\$4,000,000 (equivalent to ¥27,080,014 to ¥54,160,000)	1

■ NOMINATION COMMITTEE

The Company has established the nomination committee of the Company (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 or reappointment of the Directors and senior management of the Company; to review the structure, size and composition of the Board; to identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors.

The Nomination Committee met 4 times during the Reporting Period. The attendance of each member is set out as follows:

Name of members	Number of attendance
Mr. Kohei SATO	4/4
Mr. Mitsutoshi KATO	4/4
Mr. Kei MURAYAMA	4/4

To summarize the work performed by the Nomination Committee during the Reporting Period, the Nomination Committee had reviewed the appointment and reappointment of Directors and executive officers with recommendations to the Shareholders for their approval at the AGM held in June 2017.

The Company has adopted a board diversity policy in 2013. The 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 consolidated financial statements of the Group. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. 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 located 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 by the Audit Committee once a year.

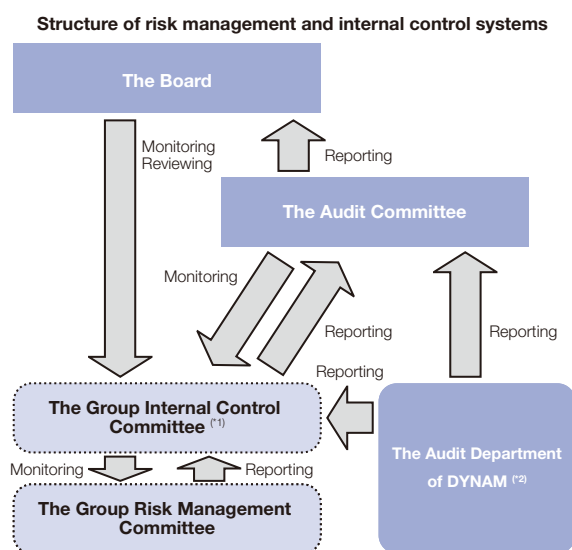
Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

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 chief information controller and disclosed at a proper timing. The Group regularly educates all employees how to handle inside information.

The executive officers have developed operational guidelines on anti-money laundering measures and evaluated 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 for the Reporting Period.



Description of the system

The Board, through the Group 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 as the concept which involves risk management. Therefore, "The Group 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⁾	97	7
Non-audit services	—	—
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 ¥13.54 to HK\$1.00, the exchange rate prevailing on 30 March 2018.

■ SHAREHOLDERS' RIGHTS

Rights to demand that Directors call a Shareholders' meeting

The Shareholders continuously holding the Shares representing not less than 3% of the votes of all the Shareholders for six months may demand that the Directors convene a Shareholders' meeting, by illustrating the matters which shall be the purpose of the Shareholders' meeting (limited to matters on which the Shareholders may exercise their votes) and providing the reason for the calling of the Shareholders' meeting.

Right to put enquiries to the Board

The Shareholders have the right to put 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 that Directors include a proposal in a convocation notice

Any Shareholder continuously holding not less than 1% of the votes of all the Shareholders or not less than 300 votes of all the Shareholders for six months may demand that the Directors, no later than eight weeks prior to the date of the Shareholders' meeting, notify the Shareholders of the summary of the proposals which the demanding Shareholder intend 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.

Constitutional Documents

During the Reporting Period, there was no significant change in the Company's constitutional documents.

■ 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 Rule 13.51B(1) of the Listing Rules.

■ JOINT COMPANY SECRETARIES

The Company engages Ms. MOK Ming Wai, director of TMF 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.

■ NON-COMPETITION UNDERTAKING

Each of Mr. Yoji SATO, Mr. Kohei SATO, Mrs. Keiko SATO, Mrs. Yaeko NISHIWAKI, Mr. Masahiro SATO, Mr. Shigehiro SATO, Mr. Kiyotaka SATO and Rich-O, each controlling Shareholder (as defined in the Listing Rules), has confirmed to the Company that during the Reporting Period he/she/it has complied with the non-competition undertakings (the "Non-Competition Undertakings") given by them to the Company on 18 July 2012. Details of the Non-Competition Undertakings are set out in the section headed "Relationship with our Controlling Shareholders" of the prospectus of the Company dated 24 July 2012.

The independent non-executive Directors have also reviewed the status of compliance by each of the said controlling Shareholders with the undertakings in the Non-Competition Undertakings and have confirmed that, as far as the independent non-executive Directors can ascertain, there is no breach of any of the undertakings in the Non-Competition Undertakings.

DYNAM JAPAN HOLDINGS Co., Ltd.

Annual Report **2018**

Finance

- Summary of Financial Performance
- Financial Review
- Independent Auditor's Report
- Consolidated Financial Statements

Summary of Financial Performance

	Year ended 31 March						(in millions)
	2018		2017		2016	2015	2014
	¥	HK\$	¥	HK\$	¥	¥	¥
Gross pay-ins	775,060	57,242	817,777	56,633	844,885	826,072	922,172
Less: gross payouts	(622,968)	(46,009)	(660,908)	(45,769)	(688,974)	(671,516)	(756,418)
Revenue	152,092	11,233	156,869	10,864	155,911	154,556	165,754
Hall operating expenses	(136,727)	(10,098)	(142,142)	(9,844)	(138,326)	(134,659)	(135,940)
General and administrative expenses	(5,049)	(373)	(5,622)	(389)	(5,798)	(5,456)	(4,086)
Other income	9,458	699	9,224	639	8,184	6,850	7,139
Other operating expenses	(2,425)	(179)	(2,430)	(168)	(1,805)	(1,947)	(1,132)
Operating profit	17,349	1,281	15,899	1,101	18,166	19,344	31,735
Finance income	236	17	233	16	311	2,151	3,660
Finance expenses	(781)	(58)	(1,307)	(91)	(1,074)	(1,977)	(781)
Profit before income taxes	16,804	1,241	14,825	1,027	17,403	19,518	34,614
Income taxes	(5,879)	(434)	(5,520)	(382)	(6,864)	(8,259)	(13,377)
Net profit for the year	10,925	807	9,305	644	10,539	11,259	21,237
Net profit attributable to:							
Owners of the Company	10,870	803	9,360	648	10,544	11,303	21,255
Non-controlling interests	55	4	(55)	(4)	(5)	(44)	(18)
Net profit for the year	10,925	807	9,305	644	10,539	11,259	21,237
Earnings per share							
Basic	¥14.2	HK\$1	¥12.2	HK\$1	¥13.9	¥15.2	¥28.6
Diluted	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA ^(*)	29,524	2,181	28,469	1,972	30,494	30,637	42,702

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

As at 31 March							
	2018		2017		2016	2015	(in millions) 2014
	¥	HK\$	¥	HK\$	¥	¥	¥
Non-current assets	131,826	9,736	142,043	9,837	145,944	132,213	135,223
Current assets	53,145	3,925	63,072	4,368	43,240	48,723	50,946
Current liabilities	39,643	2,928	38,496	2,666	30,838	31,380	34,910
Net current assets	13,502	997	24,576	1,702	12,402	17,343	16,036
Total assets less current liabilities	145,328	10,733	166,619	11,539	158,346	149,556	151,259
Non-current liabilities	7,813	577	29,738	2,059	25,727	14,503	9,249
Total equity	137,515	10,156	136,881	9,479	132,619	135,053	142,010

CURRENCY TRANSLATIONS

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

1. ¥13.54 to HK\$1.00, the exchange rate prevailing on 30 March 2018 (i.e. the last business day in March 2018).
2. ¥14.44 to HK\$1.00, the exchange rate prevailing on 31 March 2017 (i.e. the last business day in March 2017).

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.

Financial Review

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

	For the year ended 31 March				changes ⁽³⁾
	2018		2017		
	(in millions, except for percentages)				
	¥	HK\$ ⁽¹⁾	¥	HK\$ ⁽²⁾	
					%
Gross pay-ins					
— High playing cost halls	456,042	33,681	498,995	34,556	−8.6%
— Low playing cost halls	319,018	23,561	318,782	22,076	+0.1%
Total gross pay-ins	775,060	57,242	817,777	56,633	−5.2%
Gross payouts					
— High playing cost halls	378,360	27,944	417,676	28,925	−9.4%
— Low playing cost halls	244,608	18,066	243,232	16,844	+0.6%
Total gross payouts	622,968	46,009	660,908	45,769	−5.7%
Revenue					
— High playing cost halls	77,682	5,737	81,319	5,632	−4.5%
— Low playing cost halls	74,410	5,496	75,550	5,232	−1.5%
Total revenue	152,092	11,233	156,869	10,864	−3.0%

(1) Translated into Hong Kong dollars at the rate of ¥13.54 to HK\$1.00, the exchange rate prevailing on 30 March 2018 (i.e. the last business day in March 2018).

(2) 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).

(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, centering on high playing cost halls, and the playing revenues continue to decrease. On the other hand, moving to draw back customers are making headway 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 installed.

Under such an 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 so 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 the 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 to provide 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 6 new low playing cost halls, closed 2 halls as a result of reviewing commercial areas. Through such countermeasure, the number of halls as at the end of March 2018 became 450. By hall type, we operate 180 high playing cost halls and 270 low playing cost halls.

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 ¥42,717 million (equivalent to approximately HK\$3,155 million*), or 5.2%*, from ¥817,777 million (equivalent to approximately HK\$56,633 million) for the year ended 31 March 2017 to ¥775,060 million (equivalent to approximately HK\$57,242 million) for the year ended 31 March 2018.

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

Gross pay-ins for high playing cost halls decreased by ¥42,953 million (equivalent to approximately HK\$3,172 million*), or 8.6%*, from ¥498,995 million (equivalent to approximately HK\$34,556 million) for the year ended 31 March 2017 to ¥456,042 million (equivalent to approximately HK\$33,681 million) for the year ended 31 March 2018. 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 ¥236 million (equivalent to approximately HK\$17 million*), or 0.1%*, from ¥318,782 million (equivalent to approximately HK\$22,076 million) for the year ended 31 March 2017 to ¥319,018 million (equivalent to approximately HK\$23,561 million) for the year ended 31 March 2018. 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 ¥37,940million (equivalent to approximately HK\$2,802 million*), or 5.7%*, from ¥660,908 million (equivalent to approximately HK\$45,769 million) for the year ended 31 March 2017 to ¥622,968 million (equivalent to approximately HK\$46,009 million) for the year ended 31 March 2018.

Our gross payouts by hall type are as follows.

Gross payouts for high playing cost halls decreased by ¥39,316 million (equivalent to approximately HK\$2,904 million*), or 9.4%*, from ¥417,676 million (equivalent to approximately HK\$28,925 million) for the year ended 31 March 2017 to ¥378,360 million (equivalent to approximately HK\$27,944 million) for the year ended 31 March 2018, which was in line with the decrease in gross pay-ins.

Gross payouts for low playing cost halls increased by ¥1,376 million (equivalent to approximately HK\$102 million*), or 0.6%*, from ¥243,232 million (equivalent to approximately HK\$16,844 million) for the year ended 31 March 2017 to ¥244,608 million (equivalent to approximately HK\$18,066 million) for the year ended 31 March 2018. The increase was due primarily to the increase in gross pay-ins.

■ REVENUE AND REVENUE MARGIN

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

Our revenue decreased by ¥4,777 million (equivalent to approximately HK\$353 million), or 3%*, from ¥156,869 million (equivalent to approximately HK\$10,864 million) for the year ended 31 March 2017 to ¥152,092 million (equivalent to approximately HK\$11,233 million) for the year ended 31 March 2018.

Our revenue by hall type are as follows.

Revenue for high playing cost halls decreased by ¥3,637 million (equivalent to approximately HK\$269 million*), or 4.5%*, from ¥81,319 million (equivalent to approximately HK\$5,632 million) for the year ended 31 March 2017 to ¥77,682 million (equivalent to approximately HK\$5,737 million) for the year ended 31 March 2018. The decrease was primarily due to a decrease in gross pay-ins. The revenue margin for the year ended 31 March 2018 increased by 0.7 points to 17% year-on-year, reflecting decreased ratio of gross payouts to gross pay-ins.

Revenue for low playing cost halls decreased by ¥1,140 million (equivalent to approximately HK\$84 million*), or 1.5%*, from ¥75,550 million (equivalent to approximately HK\$5,232 million) for the year ended 31 March 2017 to ¥74,410 million (equivalent to approximately HK\$5,496 million) for the year ended 31 March 2018. The revenue margin decreased by 0.4 points to 23.3% as compared with the previous fiscal year, reflecting increased ratio of gross payouts to gross pay-ins.

■ HALL OPERATING EXPENSES

Hall operating expenses for the year ended 31 March 2018 was ¥136,727 million (equivalent to approximately HK\$10,098 million), recording a decrease by ¥5,415 million (equivalent to approximately HK\$400 million*), or 3.8%* as compared to the previous fiscal year of ¥142,142 million (equivalent to approximately HK\$9,844 million).

Our hall operating expenses by hall type are as follows.

Hall operating expenses for high playing cost halls decreased by ¥4,696 million (equivalent to approximately HK\$347 million*), or 7%*, from ¥67,374 million (equivalent to approximately HK\$4,666 million) for the year ended 31 March 2017 to ¥62,678 million (equivalent to approximately HK\$4,629 million) for the year ended 31 March 2018. The decrease is due primarily to reduction of overall operating costs in our high playing cost halls as well as an equivalent procurement of pachinko and pachislot machines as previous fiscal year. The average hall operating expenses per hall also decreased by 5.7%*.

Hall operating expenses for low playing cost halls decreased by ¥718 million (equivalent to approximately HK\$53 million*), or 1%*, from ¥74,767 million (equivalent to approximately HK\$5,178 million) for the year ended 31 March 2017 to ¥74,049 million (equivalent to approximately HK\$5,469 million) for the year ended 31 March 2018. The decrease is due primarily to reduction of operating costs in our low playing cost halls except for machine expenses and hall staff costs increased for addition of 5 halls. The average hall operating expenses per hall also decreased by 3.4%*.

■ GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased by ¥573 million (equivalent to approximately HK\$42 million*), or 10.2%*, from ¥5,622 million (equivalent to approximately HK\$389 million) for the year ended 31 March 2017 to ¥5,049 million (equivalent to approximately HK\$373 million) for the year ended 31 March 2018. 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 2017 and 2018 were ¥9,224 million (equivalent to approximately HK\$639 million) and ¥9,458 million (equivalent to approximately HK\$699 million), respectively. The increase was primarily attributable to recording of sales revenue from finance leases.

■ OTHER OPERATING EXPENSES

Other operating expenses decreased by ¥5 million (equivalent to approximately HK\$Δ million*), or 0.2%*, from ¥2,430 million (equivalent to approximately HK\$168 million for the year ended 31 March 2017 to ¥2,425 million (equivalent to approximately HK\$179 million) for the year ended 31 March 2018.

Δ less than 0.5 million.

■ FINANCE INCOME

Finance income increased by ¥3 million (equivalent to approximately HK\$Δ million*), or 1.3%*, from ¥233 million (equivalent to approximately HK\$16 million) for the year ended 31 March 2017 to ¥236 million (equivalent to approximately HK\$17 million) for the year ended 31 March 2018. The increase was primarily attributable to recording of finance leases interest income, partially offset by decreased dividend income.

Δ Less than 0.5 million

■ FINANCE EXPENSES

Finance expenses decreased by ¥526 million (equivalent to approximately HK\$39 million*), or 40.2%*, from ¥1,307 million (equivalent to approximately HK\$91 million) for the year ended 31 March 2017 to ¥781 million (equivalent to approximately HK\$58 million) for the year ended 31 March 2018. The decrease was primarily attributable to the decreased 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.

Financial Review

CASH FLOW

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			
	2018		2017	
	¥	HK\$ ⁽¹⁾	¥	HK\$ ⁽²⁾
Net cash generated from operating activities	27,588	2,038	26,588	1,841
Net cash used in investing activities	(4,182)	(309)	(6,284)	(435)
Net cash (used in)/generated from financing activities	(31,235)	(2,307)	192	13
Effects of exchange rate changes on cash and cash equivalents	(137)	(10)	(131)	(9)
Net (decrease)/increase in cash and cash equivalents	(7,966)	(588)	20,365	1,410
Cash and cash equivalents at beginning of year	48,499	3,582	28,134	1,948
Cash and cash equivalents at end of year	40,533	2,994	48,499	3,359

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			
	2018		2017	
	¥	HK\$ ⁽¹⁾	¥	HK\$ ⁽²⁾
Operating profit before working capital changes	30,190	2,230	29,415	2,037
Change in working capital — (used in)	3,308	244	2,060	143
Cash generated from operations	33,498	2,474	31,475	2,180
Income taxes paid	(5,758)	(425)	(4,713)	(326)
Finance costs paid	(152)	(11)	(174)	(12)
Net cash generated from operating activities	27,588	2,038	26,588	1,841

(1) Translated into Hong Kong dollars at the rate of ¥13.54 to HK\$1.00, the exchange rate prevailing on 30 March 2018 (i.e. the last business day in March 2018).

(2) 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).

Net cash generated from operation activities

Our net cash generated from operating activities was ¥27,588 million (equivalent to approximately HK\$2,038 million) for the year ended 31 March 2018 as compared to ¥26,588 million (equivalent to approximately HK\$1,841 million) for the year ended 31 March 2017.

The increase in our net cash generated from operating activities was mainly due to the increase in operating profit before working capital change and positive change in working capital, partially offset by the increased income taxes.

Net cash used in investing activities

Our net 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 ¥6,284 million (equivalent to approximately HK\$435 million) and ¥4,182 million (equivalent to approximately HK\$306 million) for the years ended 31 March 2017 and 2018, respectively. The cash outflow for the year ended 31 March 2018 was primarily due to the purchase of property, plant, and equipment amounted to ¥4,984 million (equivalent to approximately HK\$368 million). The cash inflow for the year ended 31 March 2018 was primarily due to the proceeds from disposal of property, plant and equipment amounted to ¥464 million (equivalent to approximately HK\$34 million), decrease in rental deposits amounted to ¥227 million (equivalent to approximately HK\$17 million) and finance income received amounted to ¥154 million (equivalent to approximately HK\$11 million).

Net cash (used in)/generated from financing activities

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

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

For the year ended 31 March 2017, net cash generated from financing activities was ¥192 million (equivalent to approximately HK\$13 million) and net cash used in financing activities was ¥31,235 million (equivalent to approximately HK\$2,307 million) for the year ended 31 March 2018.

The cash outflow for the year ended 31 March 2018 was primarily due to the repayment of bank loans in the amount of ¥25,160 million (equivalent to approximately HK\$1,858 million), dividend payment in the amount of ¥9,192 million (equivalent to approximately HK\$679 million). The cash inflow for the year ended 31 March 2018 was primarily due to the bank loans raised amounted to ¥3,413 million (equivalent to approximately HK\$252 million).

Financial Review

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 2018		31 March 2017	
	¥	HK\$ ⁽¹⁾	¥	HK\$ ⁽²⁾
Current assets				
Inventories	2,925	216	3,528	244
Trade receivables	469	35	563	39
Prizes in operation of pachinko halls	4,114	304	4,833	335
Other current assets	5,104	377	5,649	391
Cash and cash equivalents	40,533	2,994	48,499	3,359
	53,145	3,925	63,072	4,368
Current liabilities				
Trade and other payables	19,220	1,419	18,282	1,266
Borrowings	7,351	543	7,281	504
Finance lease payables	256	19	302	21
Provisions	1,971	146	1,892	131
Income taxes payables	2,891	214	3,258	226
Other current liabilities	7,954	587	7,481	518
	39,643	2,928	38,496	2,666
Net current assets	13,502	997	24,576	1,702

(1) Translated into Hong Kong dollars at the rate of ¥13.54 to HK\$1.00, the exchange rate prevailing on 30 March 2018 (i.e. the last business day in March 2018).

(2) 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).

As at 31 March 2017 and 2018, our net current assets totalled ¥24,576 million (equivalent to approximately HK\$1,702 million) and ¥13,502 million (equivalent to approximately HK\$997 million), respectively, and our current ratio was 1.6 and 1.3, 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 decreased from 14.7% as at 31 March 2017 to 4.6% as at 31 March 2018, primarily due to the decrease in total borrowings.

Capital expenditures

Our capital expenditures consist primarily of purchases of land, buildings including the cost of leasehold improvements, tools and equipment, motor vehicles and construction in progress. Our capital expenditures for the year ended 31 March 2017 and 2018 were ¥10,118 million (equivalent to approximately HK\$701 million) and ¥4,836 million (equivalent to approximately HK\$357 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 109 of this annual report.

Inventories

Our total inventories decreased from ¥3,528 million (equivalent to approximately HK\$244 million) as at 31 March 2017 to ¥2,925 million (equivalent to approximately HK\$216 million) as at 31 March 2018. The decrease was primarily attributable to the decrease in properties held for sale and under development for sale of ¥448 million (equivalent to approximately HK\$33 million), and supplies related to our pachinko hall operation of ¥241 million (equivalent to approximately HK\$18 million).

The details to inventories are provided in note 27 to the consolidated financial statements on page 119 of this Annual Report.

Prizes in operation of pachinko halls

Our total prizes in operation of pachinko halls decreased from ¥4,833 million (equivalent to approximately HK\$335 million) as at 31 March 2017 to ¥4,114 million (equivalent to approximately HK\$304 million) as at 31 March 2018. The decrease was primarily attributable to the decrease in G-prize of ¥533 million (equivalent to approximately HK\$39 million) and general prize of ¥186 million (equivalent to approximately HK\$14 million).

The details to prizes in operation of pachinko halls are provided in note 28 to the consolidated financial statements on page 119 of this annual report.

■ PLEDGE OF ASSETS

As at 31 March 2018, certain property, plant, and equipment which amounted to ¥2,904 million (equivalent to approximately HK\$214 million) was pledged as securities for the bank borrowings.

For the relevant information, please refer to note 32 to the consolidated financial statements on page 122 of this annual report.

■ CONTINGENT LIABILITIES

As at 31 March 2018, we had no material contingent liabilities.

■ CAPITAL COMMITMENTS

The details to capital commitments are provided in note 47 to the consolidated financial statements on page 136 of this annual report.

■ ACQUISITION AND DISPOSAL

For the year ended 31 March 2018, 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 2018.

■ EMPLOYEES

As at 31 March 2018, we had approximately 18,077 employees (31 March 2017: 17,809). 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 2018 was ¥57,750 million (equivalent to approximately HK\$4,265 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 2018 were ¥7,351 million (equivalent to approximately HK\$543 million) and ¥1,221 million (equivalent to approximately HK\$90 million), respectively. These bank borrowings are secured liabilities.

The details to borrowings are provided in note 32 to the consolidated financial statements on page 122 of this Annual Report.

Loan facilities

At as 31 March 2018, we had a total amount of approximately ¥34,000 million (equivalent to approximately HK\$2,511 million) of banking facilities and an installment facility available to us, of which approximately ¥31,996 million (equivalent to approximately HK\$2,363 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 2021.

Borrowings under the revolving loan facility bear interest at the rate of 0.35% per annum on top of the interest rate for the corresponding loan term published by the Japanese Bankers Association for euroyen TIBOR* (Tokyo Interbank Offered Rate), subject to adjustment from time to time.

On 30 September 2017, 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 2016. 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. We have used interest rate swaps in order to mitigate our exposure associated with fluctuations in interest 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 and 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 66 to 140, which comprise:

- the consolidated statement of financial position as at 31 March 2018;
- 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 2018, 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.

As part of our audit, we performed the following procedures related to the management's impairment assessment:

The Group has reported a significant goodwill balance amounting to ¥2,677 million in the consolidated statements of financial position as of 31 March 2018. This goodwill relates to the acquisition of 100% of the share capital of Yume Corporation for a consideration of ¥5,798 million in the year ended 31 March 2016. The goodwill was entirely allocated to those Yume Corporation's pachinko halls that were expected to benefit from the synergies of the acquisition and the carrying amount is subject to an annual impairment test. An impairment test requires exercise of significant management judgement to determine the recoverable amounts of cash generating units (CGUs). The recoverable amounts of CGUs are based on value in use calculations that require significant management judgement with respect to determining the pre-tax discount rate and underlying cash flows, in particular with respect to future revenue growth rates and operating costs on the business plans approved by the management for the following years.

The industry market size as a whole has been shrinking in recent years, and at the same time regulation of gaming machines has been stricter. Under such situation, the Group's net revenue has accordingly been decreasing overall. In response, the Group has taken actions to reduce machine costs and improve profitability, including expansion of the private branded machine business, and increased focus on regular maintenance of both existing machines and pachinko halls.

As a result, Yume Corporation recorded an operating profit for the year ended 31 March 2018, and management concluded that the recoverable amount of each CGU exceeded its respective carrying value as of 31 March 2018.

- 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 focus to low playing cost games and the challenging business environment that the entire industry has to face;
- Agreed key assumptions to supporting evidence, such as the approved budgets upon which forecasts were based. We evaluated the reasonableness of using these as a basis for estimating 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.

Independent Auditor's Report

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 is 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 judgement 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 Yoshihisa Chiyoda.

PricewaterhouseCoopers Aarata LLC

Certified Public Accountants

Japan, 23 May 2018

Consolidated Statement of Profit or Loss

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 ¥ million	2017 ¥ million
Revenue	12	152,092	156,869
Hall operating expenses	13(a)	(136,727)	(142,142)
General and administrative expenses	13(b)	(5,049)	(5,622)
Other income	15(a)	9,458	9,224
Other operating expenses	15(b)	(2,425)	(2,430)
Operating profit		17,349	15,899
Finance income	16	236	233
Finance expenses	17	(781)	(1,307)
Profit before income tax		16,804	14,825
Income taxes	18	(5,879)	(5,520)
Net profit for the year		10,925	9,305
Net profit attributable to:			
Owners of the Company		10,870	9,360
Non-controlling interests		55	(55)
Net profit		10,925	9,305
Earnings per share	21		
Basic (¥)		14.2	12.2
Diluted (¥)		14.2	12.2

The notes on pages 73 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 ¥ million	2017 ¥ million
Net profit for the year		10,925	9,305
Other comprehensive income/(loss):			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit retirement plans	36(a)	2	6
— Income tax effect arising from actuarial gain or loss thereof		(1)	(2)
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 (loss)/income		(368)	3,966
— Income tax effect of changes in fair value of financial assets measured at fair value through other comprehensive income		33	(30)
		(334)	3,952
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(764)	43
		(764)	43
Other comprehensive (loss)/income for the year, net of tax	43	(1,098)	3,995
Total comprehensive income for the year		9,827	13,300
Attributable to:			
Owners of the Company		9,771	13,347
Non-controlling interests		56	(47)
		9,827	13,300

The notes on pages 73 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

AT 31 MARCH 2018

	Note	2018 ¥ million	2017 ¥ million
Non-current assets			
Property, plant and equipment	22,47	98,794	106,687
Investment properties	23	1,490	1,627
Intangible assets	24	3,545	3,833
Financial assets measured at fair value through other comprehensive income	25	5,894	7,008
Deferred tax assets	37	10,694	11,150
Other non-current assets	26	11,409	11,738
		131,826	142,043
Current assets			
Inventories	27	2,925	3,528
Trade receivables	9(b)	469	563
Prizes in operation of pachinko halls	28	4,114	4,833
Other current assets	29	5,104	5,649
Cash and cash equivalents	30	40,533	48,499
		53,145	63,072
TOTAL ASSETS		184,971	205,115
Current liabilities			
Trade and other payables	31	19,220	18,282
Borrowings	32	7,351	7,281
Finance lease payables	33	256	302
Provisions	38	1,971	1,892
Income taxes payables		2,891	3,258
Other current liabilities	35	7,954	7,481
		39,643	38,496
Net current assets		13,502	24,576
Total assets less current liabilities		145,328	166,619

	Note	2018 ¥ million	2017 ¥ million
Non-current liabilities			
Deferred tax liabilities	37	6	6
Borrowings	32	1,221	22,768
Finance lease payables	33	326	575
Retirement benefit obligations	36	–	234
Other non-current liabilities	39	799	807
Provisions	38	5,461	5,348
		7,813	29,738
NET ASSETS		137,515	136,881
Capital and reserves			
Share capital	40	15,000	15,000
Capital reserve	42(a)	12,741	12,741
Retained earnings	42(a)	114,106	112,403
Other component of equity	42(a)	(4,315)	(3,191)
Equity attributable to owners of the Company		137,532	136,953
Non-controlling interests		(17)	(72)
TOTAL EQUITY		137,515	136,881

The notes on pages 73 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2018

	Attributable to equity holders of the Company										
	Share capital ¥ million	Capital reserve ¥ million	Treasury shares ¥ million	Retained earnings ¥ million	Other component of equity				Non-controlling interests ¥ million	Total equity ¥ million	
					Fair value of financial assets at FVTOCI ¥ million	Foreign currency translation reserve ¥ million	Other reserves ¥ million	Total ¥ million			
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
At 1 April 2017	15,000	12,741	–	112,403	(4,721)	1,515	15	(3,191)	136,953	(72)	136,881
Profit for the year	–	–	–	10,870	–	–	–	–	10,870	55	10,925
Other comprehensive income for the year	–	–	–	–	(335)	(765)	1	(1,099)	(1,099)	1	(1,098)
Transfer to retained earnings	–	–	–	25	(24)	–	(1)	(25)	–	–	–
Total comprehensive income for the year	–	–	–	10,895	(359)	(765)	–	(1,124)	9,771	56	9,827
Change in ownership interest of parent due to transactions with non-controlling interests	–	–	–	–	–	–	–	–	–	(1)	(1)
2018 dividend	–	–	–	(9,192)	–	–	–	–	(9,192)	–	(9,192)
Total changes in equity for the year	–	–	–	1,703	(359)	(765)	–	(1,124)	579	55	634
At 31 March 2018	15,000	12,741	–	114,106	(5,080)	750	15	(4,315)	137,532	(17)	137,515

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2018

	2018 ¥ million	2017 ¥ million
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	16,804	14,825
Adjustments for:		
Finance expenses	781	1,307
Finance income	(236)	(233)
Depreciation	11,523	11,895
Amortisation of intangible assets	415	442
Loss on disposals and write off of property, plant and equipment	157	448
Loss/(gain) on disposals and write off of investment properties	48	(30)
Impairment loss on property, plant and equipment	579	414
Impairment loss on intangible assets	0	–
Fair value loss from investment properties	98	281
Other adjustments	21	66
Operating profit before working capital changes:	30,190	29,415
Decrease in prizes in operation of pachinko halls	719	83
Decrease/(increase) in inventories	514	(499)
Decrease/(increase) in trade receivables	94	(107)
Decrease in other non-current assets	860	660
Decrease in other current assets	588	444
Increase in finance lease receivables	(892)	–
Increase in trade and other payables	1,116	627
Increase in other current liabilities	474	1,129
Decrease in other non-current liabilities	(10)	(429)
Decrease in retirement benefit obligations	(234)	(9)
Increase in current provisions	79	161
Cash generated from operations	33,498	31,475
Income taxes paid	(5,758)	(4,713)
Finance expenses paid	(152)	(174)
Net cash generated from operating activities	27,588	26,588

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 ¥ million	2017 ¥ million
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(4,984)	(9,925)
Proceeds from disposal of property, plant and equipment		464	98
Purchase of investment properties		(160)	–
Proceeds from disposal of investment properties		151	398
Purchase of intangible assets		(135)	(330)
Proceeds from disposal of financial assets measured at fair value through other comprehensive income		105	3,395
Finance income received		154	136
Payments for asset retirement obligations		–	(81)
Decrease in rental deposits		227	9
Other adjustments		(4)	16
Net cash used in investing activities		(4,182)	(6,284)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans raised	34	3,413	15,951
Repayment of bank loans	34	(25,160)	(6,712)
Repayment of finance leases	34	(295)	(8)
Proceeds from disposal of treasury shares		–	147
Dividends paid	20	(9,192)	(9,186)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(1)	–
Net cash (used)/generated in financing activities		(31,235)	192
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(137)	(131)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(7,966)	20,365
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		48,499	28,134
CASH AND CASH EQUIVALENTS AT END OF YEAR	30	40,533	48,499
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		40,533	48,499

The notes pages 73 to 140 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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 2018 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 23 May 2018.

In the opinion of the directors of the Company, as at 31 March 2018, 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. FUNCTIONAL AND PRESENTATION 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 2017 with no impact on the Group’s results of operations and financial position:

- IFRSs (Amendment), ‘Annual Improvements to IFRSs 2014–2016 Cycle’
- IAS7 (Amendment), ‘Disclosure Initiative’
- IAS12 (Amendment), ‘Recognition of Deferred Tax Assets for Unrealised Losses’

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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 Group has assessed the impact of these standards and interpretations that are subject to be adopted for the coming fiscal year and has considered that there would be no significant impacts on the Group's consolidated financial statements for the fiscal year ended 31 March 2019. The impact to the consolidated financial statements for the year ended 31 March 2020 through adoption is still under investigation and it is difficult to estimate at this moment. The Group elected to adopt IFRS 9 Financial Instruments from fiscal year ended 31 March 2016.

IFRS		Mandatory for fiscal year beginning on or after	Adopted by the group from fiscal year ended	Summary of new standards and amendments
IAS 28 (Amendment)	Long-term interests in Associates and Joint Ventures	1 January 2019	March 2020	Amendment with regard to the clarification of the application of IFRS 9 'Financial Instruments' to long-term interests in an associate or joint venture to which the equity method is not applied
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 2015–2017 Cycle	1 January 2019	March 2020	Minor amendments with regard to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
IFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019	March 2020	Amendment with regard to the measurement of prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met
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
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	March 2020	Amendment with regard to the clarification of how to reflect the effects of uncertainty in accounting for income taxes

7. SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Consolidation

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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.

(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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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	2–20 years
Motor vehicles	2–6 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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

The Group as 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.

The Group as lessor

(i) Finance leases

Leases that substantially transfer to lessees all the risks and rewards of ownership of assets are accounted for as finance leases.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the net investment in the leases, and unearned income is allocated over the lease term at a constant periodic rate of return on the net investments and recognized in the fiscal year to which it is attributable.

(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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Inventories *(Continued)*

(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.

(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 amortised 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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.

For property held for sale, sales revenue is recognized at the time the delivery conditions agreed with customers are met. These conditions are usually considered to have been met when goods are received by customers or acceptance from customers is received.

For certain transactions that are accounted for as finance leases, revenue is recognised upon lease commencement of the lease term which the lessee is entitled to exercise its right to use the leased asset.

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

(iii) Interest income and dividend income

Interest income is recognised on 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

7. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Taxation *(Continued)*

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

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

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

Deferred tax 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:

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FOR THE YEAR ENDED 31 MARCH 2018

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) 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.

(c) 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 2018, 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 ¥19 million (2017: ¥61 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 2018, 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 ¥94 million (2017: ¥110 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	2018 ¥ million	2017 ¥ million
Hang Seng Index		
5%	222	266
(5%)	(222)	(266)
Tokyo Price Index		
5%	20	21
(5%)	(20)	(21)

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 held as at 31 March 2018 and 2017 are categorized into financial assets measured at FVTOCI whose subsequent changes in fair value are presented in other comprehensive income.

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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 2018, 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	2018 ¥ million	2017 ¥ million
25 basis points	(8)	(45)
(25) basis points	8	45

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

Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed. The carrying amount of cash and bank balance, pledged bank deposits, trade, financial lease receivables 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 policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related customers 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 and finance lease 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 cash and bank balances and derivative financial instruments are limited because the customers are banks with high credit ratings assigned by international credit-rating agencies. The credit quality of the customers in respect of trade receivables and financial lease receivables is assessed by taking into account their financial position, credit history and other factors. Given the constant repayment history, management is of the opinion that risk of default by these customers is low.

9. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk *(Continued)*

The Group considers the probability 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 customer 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 trade receivables and financial lease 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 469 million yen as at 31 March 2018 (2017: 563 million yen).

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

	2018 ¥ million	2017 ¥ million
1 to 30 days	445	470
31 days to 60 days	18	26
Over 60 days	6	67
	469	563

There is no significant past due balance nor loss allowance provision recognised for trade receivables as at 31 March 2018 (2017: Nil).

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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 2018					
Trade and other payables	19,220	—	—	—	19,220
Other current liabilities	7,954	—	—	—	7,954
Borrowings	7,414	727	505	—	8,646
Finance lease payables	279	189	172	—	640
Other non-current liabilities	—	119	174	511	804
	34,867	1,035	851	511	37,264

	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

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 waiver 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 2017 to 31 March 2018.

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 2018 and 2017 are as follows:

	2018 ¥ million	2017 ¥ million
Total liability	47,456	68,234
Less: cash and cash equivalents	(40,533)	(48,499)
Net liability	6,923	19,735
Total liability and total equity	184,971	205,115

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11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

		At 31 March 2018		At 31 March 2017	
		¥ million		¥ million	
	Notes	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Financial assets measured at FVTOCI	25	5,894	5,894	7,008	7,008
Financial assets measured at amortised cost					
Receivables (including cash and cash equivalents)		42,007	42,007	50,605	50,605
Rental deposits		6,387	6,864	6,727	7,252
Finance lease receivables		892	892	—	—
Other financial assets at amortised cost		—	—	10	10
Total		55,180	55,657	64,350	64,875
Financial liabilities					
Financial liabilities measured at amortised cost					
Trade payables and other financial liabilities		9,362	9,362	10,017	10,017
Borrowings	32	8,572	8,572	30,049	30,049
Finance lease payables	33	582	582	877	877
Total		18,516	18,516	40,943	40,943

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

Financial assets		2018	2017
	Notes	¥ million	¥ 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		112	54
Total		112	133

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) Receivables (including 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.

(iii) Rental deposits

Rental deposits are measured at present value discounted by the interest rate which takes into account duration and credit risk.

(iv) Finance lease receivables

Finance lease receivables are measured at present value discounted by the interest rate which takes into account duration and credit risk.

(v) Financial assets at amortised cost

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

(vi) Financial liabilities

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.

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

(b) Fair Value estimation *(Continued)*

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

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

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices on the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices present actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

These instruments are included in level 1. Instruments included in level 1 comprise listed equity securities.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise 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 2018

Description	Fair value measurements using:			Total ¥ million
	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	
Financial assets measured at FVTOCI				
Listed securities in Hong Kong	4,441	–	–	4,441
Listed securities in Japan	586	–	–	586
Others	–	–	867	867
Total	5,027	–	867	5,894

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

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

At 31 March 2017

Description	Fair value measurements using:			Total ¥ million
	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ 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

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.

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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 2018 and 2017:

	2018 ¥ million	2017 ¥ million
Balance at beginning of the period	1,055	1,161
Loss in other comprehensive income	(123)	(95)
Purchases	4	1
Sales/Redemptions	(69)	(12)
Balance at end of the period	867	1,055

(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

Description	Valuation technique	Unobservable inputs	Fair value at	
			31 Mar 2018 ¥ million	31 Mar 2017 ¥ million
Unlisted equity securities and others	Net Asset value method	—	867	1,055

(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 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 2018

Description	Fair value measurements using:			Total ¥ million
	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	
Financial assets				
Rental deposits	–	6,864	–	6,864
Total	–	6,864	–	6,864

At 31 March 2017

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

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FOR THE YEAR ENDED 31 MARCH 2018

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:

	2018 ¥ million	2017 ¥ million
Non-current assets		
Macau Legend Development Limited *1	2,632	3,393
IGG Inc *1	1,809	1,937
Others	1,453	1,678
	5,894	7,008

*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 2018, the Group has not significant disposal of equity investment.

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.

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

	2018 ¥ million	2017 ¥ million
Gross pay-ins	775,060	817,777
Less: Gross payouts	(622,968)	(660,908)
Revenue	152,092	156,869

13. HALL OPERATING EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

(a) Hall operating expenses

	2018 ¥ million	2017 ¥ million
Advertising expenses	4,801	5,098
Cleaning and ancillary services	4,125	3,973
Depreciation expenses	11,170	11,536
Hall staff costs	49,887	49,974
Pachinko and pachislot machine expenses	31,910	34,229
Rental expenses	12,908	12,950
Repair and maintenance expenses	2,816	3,074
Utilities expenses	6,204	6,116
Others	12,906	15,192
	136,727	142,142

Notes to the Consolidated Financial Statements

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

(b) General and administrative expenses

	2018 ¥ million	2017 ¥ million
Salaries, bonus and allowances	3,122	3,286
Audit fee	96	96
Others	1,831	2,240
	5,049	5,622

14. STAFF COSTS AND DIRECTOR'S EMOLUMENTS

	2018 ¥ million	2017 ¥ million
Salaries, bonus and allowances	56,866	56,991
Expenses recognised in respect of defined benefit retirement plans	56	46
Contribution to defined contribution retirement plans	828	822
	57,750	57,859

15. OTHER INCOME AND OTHER EXPENSES

(a) Other income

	2018 ¥ million	2017 ¥ million
Commission from vending machines and in-store sales	4,672	4,758
Income from forfeiture of customer's membership cards	280	233
Income from catering services	696	642
Sales revenue from property held for sale	205	674
Revenue from finance leases	1,390	—
Net gains on disposals of used machines	406	797
Rental income	876	944
Others	933	1,176
	9,458	9,224

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

(b) Other operating expenses

	2018 ¥ million	2017 ¥ million
Disposal cost of non-financial assets	292	487
Impairment loss of non-financial assets	595	424
Cost of sales of property held for sale	44	267
Cost of sales of finance leases	613	—
Rental cost	372	532
Others	509	720
	2,425	2,430

16. FINANCE INCOME

	2018 ¥ million	2017 ¥ million
Bank interest income	9	3
Finance leases interest income	24	—
Dividend income	112	133
Others	91	97
	236	233

17. FINANCE EXPENSES

	2018 ¥ million	2017 ¥ million
Interest expenses	292	222
Amortisation of syndicated loan charges	120	212
Foreign exchange loss, net	152	787
Early repayment cost	130	—
Others	87	86
	781	1,307

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18. INCOME TAXES

	2018 ¥ million	2017 ¥ million
Current taxes — Japan Profits Tax		
Provision for the year	5,378	5,441
Under-provision in prior years	0	65
	5,378	5,506
Current taxes — Overseas		
Provision for the year	1	1
Under-provision in prior years	—	(25)
	1	(24)
Deferred taxes (Note 37)		
Provision for the year	500	38
Income tax expense	5,879	5,520

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 2018.

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

	2018 ¥ million	2017 ¥ million
Profit before tax	16,804	14,825
Japan Profits Tax rate	32%	32%
Tax at the domestic income tax rate	5,325	4,698
Tax effect of income that is not taxable	(197)	(140)
Tax effect of expenses that are not deductible	681	542
Tax effect of temporary differences not recognised	47	131
Tax losses not recognised	144	284
Under-provision in prior years	0	40
Effect of different tax rates of subsidiaries	(40)	(18)
Effect of change in tax rate	—	17
Others	(81)	(34)
Income tax expense	5,879	5,520

19. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals in the Group during the year included two (2017: two) directors whose emoluments are reflected in the analysis presented in Note 50.

The emoluments of the remaining three (2017: three) individuals are set out below:

	2018 ¥ million	2017 ¥ million
Salaries and allowances	73	78
Discretionary bonus	9	7
Retirement benefit contributions scheme	–	–
	82	85

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

	2018 Number of individuals	2017 Number of individuals
HK\$1,500,001 to HK\$2,000,000 (equivalent to ¥20,310,014 to ¥27,080,000) (2017: equivalent to ¥21,660,014 to ¥28,880,000)	2	3
HK\$2,000,001 to HK\$2,500,000 (equivalent to ¥27,080,014 to ¥33,850,000) (2017: equivalent to ¥28,880,014 to ¥36,100,000)	1	–
HK\$2,500,001 to HK\$3,000,000 (equivalent to ¥33,850,014 to ¥40,620,000) (2017: equivalent to ¥36,100,014 to ¥43,320,000)	–	–
HK\$3,000,001 to HK\$3,500,000 (equivalent to ¥40,620,014 to ¥47,390,000) (2017: equivalent to ¥43,320,014 to ¥50,540,000)	–	–

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 2018 (2017: Nil).

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20. DIVIDENDS

Dividends declared and paid/payable to its shareholders by:	2018		2017	
	Dividend per share ¥	Total dividends ¥ million	Dividend per share ¥	Total dividends ¥ million
— Interim	6.00	4,596	6.00	4,596
— Final	6.00	4,596	6.00	4,596
		9,192		9,192

On 23 May 2018, the Board of Directors declared a final dividend of ¥6.00 per ordinary share of the Company, which is payable on 22 June 2018 to the shareholders of the Company.

The amount of proposed final dividend for the year ended 31 March 2018 is based on 765,985,896 shares in issue as at 23 May 2018 when the consolidated financial statements was approved by the Board of directors.

If the Group owns any treasury shares as at 4 June 2018 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:

	2018 ¥ million	2017 ¥ million
Earnings for the purpose of calculating basic earnings per share	10,870	9,360
Weighted average number of ordinary shares	765,985,896	765,495,485
Basic earnings per share (¥)	14.2	12.2

Diluted earnings per share was the same as basic earnings per share for the year ended 31 March 2018 and 2017 as there were no dilutive potential ordinary shares in existence during the year ended 31 March 2018 and 2017.

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 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 and 1 April 2017	32,215	144,845	79,154	207	2,710	259,131
Additions	–	288	690	16	3,842	4,836
Transfer	211	2,518	3,655	8	(6,392)	–
Transfer to investment property (note 23)	–	–	–	–	–	–
Disposals/write off	(490)	(153)	(2,696)	(7)	–	(3,346)
Translation	–	(1)	(1)	(3)	–	(5)
Other	–	–	–	–	–	–
At 31 March 2018	31,936	147,497	80,802	221	160	260,616
Accumulated depreciation and impairment						
At 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
Disposal/write off	–	(1,548)	(4,037)	(6)	–	(5,591)
Translation	–	(1)	(21)	(3)	–	(25)
At 31 March 2017 and 1 April 2017	2,640	91,721	57,971	112	–	152,444
Charge for the year	–	5,675	5,806	42	–	11,523
Impairment loss	241	256	82	–	–	579
Transfer to investment property (note 23)	–	–	–	–	–	–
Disposals/write off	(19)	(112)	(2,587)	(6)	–	(2,724)
Translation	–	–	2	(2)	–	–
At 31 March 2018	2,862	97,540	61,274	146	–	161,822
Carrying amount						
At 31 March 2018	29,074	49,957	19,528	75	160	98,794
At 31 March 2017	29,575	53,124	21,183	95	2,710	106,687

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

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

	2018 ¥ million	2017 ¥ million
Freehold		
Japan	29,037	29,538
South Korea	37	37
	29,074	29,575

- (b) At 31 March 2018, the carrying amount of tools and equipment and motor vehicles held by the Group under finance leases amounted to ¥669 million (2017: ¥736 million).
- (c) At 31 March 2018, the carrying amount of property, plant and equipment pledged as security for the Group's borrowings amounted to ¥2,904 million (2017: ¥3,240 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 2018 and 2017, respectively. Gross pay-ins from customers are based on past practices and expectations on market development. 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.

Whereas the fair value less cost of disposal at 31 March 2018 was valued by JIL Morii Valuation & Advisory K.K. ("JIL") and the fair value less cost of disposal at 31 March 2017 was valued by Cushman & Wakefield K.K. ("CW"), which are independent and qualified firms of real estate appraiser.

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

	2018 %	2017 %
Discount rate	8.7	6.4

Impairment loss recognised for the year ended 31 March 2018 amounted to ¥579 million (2017: ¥414 million).

23. INVESTMENT PROPERTIES

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

	2018 ¥ million	2017 ¥ million
Non-current asset — at fair value		
At beginning of year	1,627	2,179
Additions	160	—
Disposals	(199)	(368)
Net loss from fair value adjustment	(98)	(281)
Transfer from owner-occupied properties	—	97
At end of year	1,490	1,627

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

	2018 ¥ million	2017 ¥ million
In Japan		
Freehold	1,273	1,194
Buildings on leasehold	217	433
	1,490	1,627

Amounts recognised in profit or loss for investment properties:

	2018 ¥ million	2017 ¥ million
Amounts recognised in profit or loss for investment properties are as follows:		
Rental income	876	944
Direct operating expenses from properties	(372)	(532)
Net (loss)/gain on disposals of investment properties	(48)	30
Fair value loss recognised in other operating expenses	(98)	(281)
Total	358	161

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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 at 31 March 2018 determined by JIL and the fair value at 31 March 2017 determined by CW, the Group performed valuation of its investment properties at 31 March 2018 and 2017 as follows:

At 31 March 2018

Description	Fair value measurements using:			Total ¥ million
	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	
Investment properties				
Freehold	—	—	1,273	1,273
Buildings on leasehold	—	—	217	217
Total recurring fair value measurements	—	—	1,490	1,490

At 31 March 2017

Description	Fair value measurements using:			Total ¥ million
	Level 1 ¥ million	Level 2 ¥ million	Level 3 ¥ million	
Investment properties				
Freehold	—	—	1,194	1,194
Buildings on leasehold	—	—	433	433
Total recurring fair value measurements	—	—	1,627	1,627

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*

The financial controller updates his assessment of the fair value of each property, based on the fair value at 31 March 2018 determined by JIL and the fair value at 31 March 2017 determined by 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 2018 and 2017 for recurring fair value measurements:

	2018 ¥ million	2017 ¥ million
Balance at beginning of the period	1,627	2,179
Additions	160	–
Disposals	(199)	(368)
Transfer from owner-occupied properties	–	97
Net loss from fair value adjustment	(98)	(281)
Balance at end of the period	1,490	1,627

* 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).

2018	(98)
2017	(281)

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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 2018 ¥ million	Fair value 2017 ¥ million	Relationship of unobservable input to fair value when the unobservable input increases
Investment properties	Income approach	Discount rate	12.0%			Decrease
		Rental period	4.5–20.4 years			Increase
		Capitalisation rate	6.0%–12.0%			Decrease
		Market rent	¥ 471–¥14,216 per tsubo	1,337	1,076	Increase
	Sales comparison approach	Transaction price for similar land	¥22,958–¥29,927 per square meter			Increase
		Adjustment for attributes of the subject (*)	64.0%	85	97	Increase
	Cost approach	Replacement Cost-Lands	¥14,500 per square meter			Increase
		Replacement Cost-Buildings	¥165,000–¥178,000 per square meter			Increase
		Accumulated depreciation rate	0%–100.0%	68	454	Decrease
				1,490	1,627	

(*) 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.

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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 2016	2,677	37	5,241	7,955
Additions	—	7	311	318
Write off	—	—	(66)	(66)
At 31 March 2017 and 1 April 2017	2,677	44	5,486	8,207
Additions	—	—	134	134
Write off	—	—	(12)	(12)
At 31 March 2018	2,677	44	5,608	8,329
Accumulated amortisation and impairment				
At 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 and 1 April 2017	—	22	4,352	4,374
Amortisation for the year	—	7	408	415
Write off	—	—	(5)	(5)
Impairment loss	—	—	0	0
At 31 March 2018	—	29	4,755	4,784
Net book value				
At 31 March 2018	2,677	15	853	3,545
At 31 March 2017	2,677	22	1,134	3,833

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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 2018	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 2019 (unit: million yen) (% annual growth rate) (*)	¥315 million–¥823 million (0%)
Operating costs (unit: million yen)	¥241 million–¥635 million
Pre-tax discount rate	8.7%

(*) For the year ending 31 March 2020 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 2019 (% annual growth rate)	Revenue for the year ending 31 March 2019 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 2020 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 for Goodwill

There are no impairment losses for Goodwill recognised during the year ended 31 March 2018 (2017: Nil).

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FOR THE YEAR ENDED 31 MARCH 2018

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 ¥14,917 million at 31 March 2018. This exceeds the total carrying amount of the CGUs, which goodwill has been allocated to, at 31 March 2018 by ¥9,295 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 6 percentage points or the operating costs increase by ¥353million (equivalent to increasing rate of 6%).

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

	2018 ¥ million	2017 ¥ million
Equity securities at fair value, listed in Hong Kong	4,441	5,330
Equity securities at fair value, listed in Japan	586	623
Others	867	1,055
	5,894	7,008

26. OTHER NON-CURRENT ASSETS

	2018 ¥ million	2017 ¥ million
Rental prepayment	3,229	3,705
Rental deposits	6,387	6,641
Prepayment for lender commitment fee	136	169
Construction assistance fund receivables	275	366
Finance lease receivables (Note 33)	844	—
Fire insurance premiums	178	264
Others	360	593
	11,409	11,738

27. INVENTORIES

	2018 ¥ million	2017 ¥ million
Supplies	1,059	1,300
Properties held for sale and under development for sale	1,365	1,813
Others	501	415
	2,925	3,528

28. PRIZES IN OPERATION OF PACHINKO HALLS

	2018 ¥ million	2017 ¥ million
G-prize	3,145	3,678
General prize	969	1,155
	4,114	4,833

29. OTHER CURRENT ASSETS

	2018 ¥ million	2017 ¥ million
Rental prepayment	2,109	1,975
Withholding tax receivables	1,906	2,321
Prepayment for lender commitment fee	87	108
Finance lease receivables (Note 33)	48	—
Others	954	1,245
	5,104	5,649

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30. CASH AND CASH EQUIVALENTS

	2018 ¥ million	2017 ¥ million
Cash on hand	6,445	5,583
Cash at bank	34,088	42,916
Cash and cash equivalents	40,533	48,499

As at 31 March 2018, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to ¥186 million (2017: ¥17 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:

	2018 ¥ million	2017 ¥ million
JPY	37,867	43,010
HKD	1,028	3,903
USD	1,228	1,441
Others	410	145
	40,533	48,499

31. TRADE AND OTHER PAYABLES

	2018 ¥ million	2017 ¥ million
Trade payables	1,456	1,698
Halls construction and system payables	1,815	2,399
Other tax expenses	3,400	2,816
Pachinko and pachislot machine payables	2,103	2,340
Accrued staff costs	8,635	7,913
Others	1,811	1,116
	19,220	18,282

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

	2018 ¥ million	2017 ¥ million
1 to 30 days	1,435	1,491
31 days to 60 days	1	126
Over 60 days	20	81
	1,456	1,698

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32. BORROWINGS

	2018 ¥ million	2017 ¥ million
Bank loans	8,572	30,049

The borrowings are repayable as follows:

	2018 ¥ million	2017 ¥ million
On demand or within one year	7,351	7,281
In the second year	719	5,897
In the third to fifth years, inclusive	502	16,657
After five years	—	214
	8,572	30,049
Less: Amount due for settlement within 12 months (shown under current liabilities)	(7,351)	(7,281)
Amount due for settlement after 12 months	1,221	22,768

Notes:

- (i) The weighted average interest rates per annum as at 31 March 2018 and 2017 were set out as follows:

	2018 %	2017 %
Bank loans	0.6	0.6

- (ii) The borrowings as at 31 March 2018 and 2017 were secured by the following:

	2018 ¥ million	2017 ¥ million
Property, plant and equipment	2,904	3,240

- (iii) All carrying amount of the borrowings at 31 March 2018 and 2017 is arranged at floating interest rate and exposes the Group to cash flow interest rate risk.

33. FINANCE LEASES

The Group as lessee

	Minimum lease payments		Present value of minimum lease payments	
	2018 ¥ million	2017 ¥ million	2018 ¥ million	2017 ¥ million
Within one year	279	305	256	302
In the second to fifth years, inclusive	361	577	326	575
	640	882	582	877
Less: Future finance charges	(58)	(5)	—	—
Present value of lease obligations	582	877	582	877
Less: Amount due for settlement within 12 months (shown under current liabilities)			(256)	(302)
Amount due for settlement after 12 months			326	575

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 (2017: 5 years). The weighted average borrowing rate per annum at 31 March 2018 was 3.3% (2017: 2.1%). 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.

The Group as lessor

	Gross investment in the lease		Present value of minimum lease payments receivable	
	2018 ¥ million	2017 ¥ million	2018 ¥ million	2017 ¥ million
Within one year	117	—	48	—
In the second to fifth years, inclusive	441	—	203	—
After five years	909	—	641	—
Total	1,467	—	892	—
Less: Unearned finance income	(575)	—		
Less: Present value of unguaranteed residual value	—	—		
Present value of minimum lease payments receivable	892	—		
Less: Amount due for settlement within 12 months (shown under current liabilities)			(48)	—
Amount due for settlement after 12 months			844	—

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33. FINANCE LEASES *(Continued)*

The Group's lease some of properties held for sale under finance leases.

The average lease term is 15 years (2017: Nil). The weighted average interest rate per annum at 31 March 2018 was 8% (2017: Nil).

All finance lease receivables 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.

Finance lease receivables are secured by the leased assets the title to which is retained by the Group for the duration of the lease.

There is no significant past due balance nor loss allowance provision recognised for finance lease receivables as at 31 March 2018 (2017: Nil).

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2017 ¥ million	Cash flows	Non-cash changes				2018 ¥ million
			Foreign exchange movement	Fair value changes	Non current transfer to current	Others	
Long-term borrowings	22,768	(15,927)	—	—	(5,890)	270	1,221
Short-term borrowings	7,281	(5,820)	—	—	5,890	—	7,351
Long-term Lease liabilities	575	(5)	—	—	(244)	—	326
Short-term Lease liabilities	302	(290)	—	—	244	—	256
Total liabilities from financing activities	30,926	(22,042)	—	—	—	270	9,154

35. OTHER CURRENT LIABILITIES

	2018 ¥ million	2017 ¥ million
Unutilised balls and tokens and unused pre-paid IC cards	6,277	5,969
Others	1,677	1,512
	7,954	7,481

36. RETIREMENT BENEFIT OBLIGATIONS

The Group operates various post-employment schemes, including both defined contribution retirement plans. Within the Group, Yume Corporation had defined benefit retirement plan for eligible employees.

Effective 1 January 2018, Yume Corporation revised its retirement benefit system and it had transitioned its defined benefit retirement plan to a defined contribution retirement plan. In conjunction with this transition, Yume Corporation has recognized losses on settlement in the consolidated statement of profit or loss for the year ended 31 March 2018. The arrangement of the withdrawal of the defined benefit plans was agreed with the employees, effective on 16 October 2017.

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
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

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36. RETIREMENT BENEFIT OBLIGATIONS (Continued)

(a) (Continued)

	Present value of obligation ¥ million	Fair value of plan assets ¥ million	Total ¥ million
31 March 2017 and 1 April 2017	528	(294)	234
Current service cost	34	–	34
Interest expense/(income)	2	(1)	1
Changes due to the transition to defined contribution pension plans	22	–	22
Total amount recognised in profit or loss	58	(1)	57
Remeasurements			
Return on plan assets, excluding amounts included in interest expense/(income)	–	(2)	(2)
(Gain)/loss from change in financial assumptions	(0)	–	(0)
Other	(0)	–	(0)
Total amount recognised in other comprehensive income	(0)	(2)	(2)
Contributions:			
Employers	—	(29)	(29)
Benefit payments	(8)	5	(3)
Changes due to the transition to defined contribution pension plans	(578)	321	(257)
31 March 2018	–	–	–

(b) The defined benefit retirement plans of Yume Corporation as of March 31, 2017 was 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 during the year ended 31 March 2017 was as follows:

	2018 %	2017 %
Discount Rate	–	0.449

36. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(c) (Continued)

Yume Corporation's sensitivity analysis for a significant actuarial assumption as of 31 March 2017 based on reasonably possible change of the relevant actuarial assumption was as follow:

	2018		2017	
	Increase ¥ million	Decrease ¥ million	Increase ¥ million	Decrease ¥ million
Discount rate (0.25% movement)	—	—	(14)	15

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 as of 31 March 2017 were as follows:

	31 March 2017			
	Quoted ¥ million	Un-quoted ¥ million	Total ¥ million	in% ¥ 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%

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37. 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 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 and 1 April 2017	451	2,015	329	1,583	5,669	(156)	1,253	11,144
Credit/(charge) to equity for the year								
— origination and reversal of temporary differences	—	(1)	—	—	—	—	45	44
Credit/(charge) to profit or loss for the year (Note 18)								
— origination and reversal of temporary differences	(45)	(24)	13	51	(755)	70	190	(500)
At 31 March 2018	406	1,990	342	1,634	4,914	(86)	1,488	10,688

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 2018, the Group has unused tax losses of ¥2,314 million (2017: ¥2,134 million) and temporary differences of ¥234 million (2017: ¥97 million) for which no deferred tax asset has been recognised.

The Group's tax losses will expire in one to nine years from 31 March 2018.

38. PROVISIONS

	Asset retirement obligation (Note (i)) ¥ million	Staff vacation payable (Note (ii)) ¥ million	Total ¥ million
At 1 April 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
Provision for the year	26	79	105
Changes in present value	87	–	87
At 31 March 2018	5,461	1,971	7,432

Analysed as:

	2018 ¥ million	2017 ¥ million
Current liabilities	1,971	1,892
Non-current liabilities	5,461	5,348
	7,432	7,240

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

39. OTHER NON-CURRENT LIABILITIES

	2018 ¥ million	2017 ¥ million
Retirement benefit payables converting to the defined contribution plan	332	251
Rental deposits received	264	349
Others	203	207
	799	807

40. 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 2017, and 1 April 2017		2,520,000,000	—
At 31 March 2018		2,520,000,000	—
Issued and fully paid:			
At 31 March 2017 and 1 April 2017		765,985,896	15,000
— At 31 March 2018		765,985,896	15,000

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 ¥ million	2017 ¥ million
Investments in subsidiaries	(i)	70,683	66,444
Other non-current assets		732	754
Due from subsidiaries — current portion	(ii)	22,047	29,873
Other current assets		16,469	18,894
TOTAL ASSETS		109,931	115,965
Due to subsidiaries — current portion	(iii)	(10,877)	(16,322)
Current tax liabilities		(27)	(20)
Other current liabilities		(210)	(187)
Other non-current liabilities		(317)	(333)
TOTAL LIABILITIES		(11,431)	(16,862)
Share capital		(15,000)	(15,000)
Reserves		(83,500)	(84,103)
TOTAL EQUITY		(98,500)	(99,103)
TOTAL LIABILITIES AND EQUITY		(109,931)	(115,965)

Notes:

(i) Investments in subsidiaries

Fluctuation of investments in subsidiaries is due to

	2018 ¥ million
Capital increase of Dynam Hong Kong shares	4,239
	4,239

(ii) Due from subsidiaries — current portion

- (a) Included in the current portion of the amounts due from subsidiaries at 31 March 2018 was an amount of ¥22,031 million (2017: ¥29,864 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 2018 and 31 March 2017, respectively, 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 at 31 March 2018 was an amount of ¥10,847 million (2017: ¥16,288 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 2018 and 31 March 2017, respectively, represents non-interest bearing balance and is trade in nature.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

42. RESERVES

(a) Group

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

(b) Company

	Capital reserve (Note 42(c)) ¥ million	Treasury shares ¥ million	Retained earnings ¥ million	Fair value of financial assets measured at FVTOCI ¥ million	Total ¥ million
At 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 and 1 April 2017	57,362	—	26,741	—	84,103
Total comprehensive income for the year	—	—	8,589	—	8,589
Transfer to retained earnings	—	—	—	—	—
2018 dividend paid	—	—	(9,192)	—	(9,192)
At 31 March 2018	57,362	—	26,138	—	83,500

(c) Nature and purpose of reserves

The Capital reserve consists of Capital surplus and Legal reserve.

(i) Capital surplus

Under the Company Law of Japan (the "Japan Company Law"), certain percentage of the proceeds from the issuance of share capital shall be credited to the share capital and the remaining of the proceeds shall be credited capital surplus (known as "additional paid-in capital"). Upon approval of the general meeting of shareholders, the additional paid-in capital would be transferred back to the share capital.

(ii) Legal reserve

The Japan Company Law provides that a 10% dividend of retained earnings shall be appropriated as legal reserve (a component of either capital surplus or retained earnings) until an aggregate amount of additional paid-in capital and legal reserve equals 25% of share capital. The legal reserve may be used to reduce a deficit or transfer to retained earnings upon approval of the general meeting of shareholders.

(d) Basis for profit appropriation

In accordance with the Japan Company Law, the distributable reserves are determined based on the retained profits and other capital surplus recorded in the Company's non-consolidated financial statements prepared in accordance with Japanese Generally Accepted Accounting Principles.

43. 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 2018				
Remeasurements on defined benefit retirement plans	2	2	(1)	1
Revaluation surplus for properties	–	–	–	–
Changes in fair value of financial assets measured at FVTOCI	(368)	(368)	33	(335)
Exchange differences on translating foreign operations	(764)	(764)	–	(764)
Total	(1,130)	(1,130)	32	(1,098)
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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

44. LIST OF SUBSIDIARIES

Particulars of the subsidiaries as at 31 March 2018 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
			2018	2017	
<i>Directly held</i>					
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	Japan 14 December 1970	¥50,000,000	100%	100%	Operation of pachinko halls
Dynam Business Support (Note (i))	Japan 31 October 2003	¥1,020,000,000	100%	100%	Real estate and property management Provision of accounting and administration services
Dynam Hong Kong Co., Limited	Hong Kong 7 January 2013	HK\$800,000,000	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
Shimonoseki Resort Development	Japan 1 September 2016	¥70,000,000	100%	100%	Real estate development

44. 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		Principal activities
			2018	2017	
Indirectly held					
Kanto Daido	Japan 22 January 1992	¥50,000,000	100%	100%	Trading of pachinko machines
Shinrainomori (Note (i))	Japan 3 December 2008	¥10,000,000	—	100%	—
Japan Real Estate	Japan 4 September 2001	¥3,000,000	100%	100%	Real estate and property management
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
Erin International Co., Ltd.	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	RMB51,998,200	100%	100%	Sales of coffee beans
Rich-O Korea	South Korea 27 February 2006	KRW675,000,000	100%	100%	Trading of LCD monitors
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
Dynamic Games Macau Limited	Macau 4 May 2016	MOP3,500,000	100%	100%	Development of pachinko machines

Notes:

- (i) Dynam Business Support was the surviving corporation in this absorption merge and Shinrainomori was dissolved on 1 April 2018.
- (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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

45. MATERIAL NON-CASH TRANSACTIONS

The Group did not have any material non-cash transactions for the year ended 31 March 2018 (2017: Nil).

46. CONTINGENT LIABILITIES

At 31 March 2018, the Group did not have any significant contingent liabilities (2017: Nil).

47. CAPITAL COMMITMENTS

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

	2018 ¥ million	2017 ¥ million
Contracted but not provided for	222	650
Approved but not contracted for	766	1,914
	988	2,564

48. LEASE COMMITMENTS

(a) Lessee

At 31 March 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 ¥ million	2017 ¥ million
Within one year	640	724
In the second to fifth years, inclusive	1,741	1,875
After five years	483	725
	2,864	3,324

The Group leases certain land and buildings under operating leases. The leases typically run for an initial average period of 19 years (2017: 19 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:

	2018 ¥ million	2017 ¥ million
Lease payments		
Land and Buildings	13,006	12,943

49. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

50. 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 2018					
Executive director					
Mr. Kohei Sato (<i>Chief executive officer</i>)	–	40.4	–	5.3	45.7
Mr. Haruhiko Mori	–	8.6	–	4.4	13.0
Mr. Tatsuji Fujimoto	–	29.9	–	2.4	32.3
Non-executive director					
Mr. Yoji Sato	–	23.3	–	–	23.3
Mr. Noriaki Ushijima	–	6.0	–	–	6.0
Independent non-executive director					
Mr. Ichiro Takano	–	7.2	–	–	7.2
Mr. Mitsutoshi Kato	–	7.2	–	–	7.2
Mr. Thomas Chun Kee Yip	–	6.0	–	–	6.0
Mr. Eisho Kunitomo	–	1.5	–	–	1.5
Mr. Kei Murayama	–	6.0	–	–	6.0
Mr. Kiyohito Kanda	–	4.5	–	–	4.5
Total	–	140.6	–	12.1	152.7

50. 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 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	—	23.1	—	—	23.1
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	—	137.4	—	10.4	147.8

Notes:

- (i) Mr. Tatsuji Fujimoto and Mr. Kiyohito Kanda were appointed as an executive director and independent non-executive director on 22 June 2017 respectively.
Mr. Haruhiko Mori and Mr. Eisho Kunitomo were retired as an executive director and independent non-executive director on 22 June 2017 respectively.
- (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 2018 (2017: 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 2018 (2017: Nil).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

50. 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 2018 (2017: 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 2018 (2017: Nil).

51. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of directors on 23 May 2018.

Definitions

In this report (other than the Independent Auditor's Report and Consolidated Financial Statements), unless the context otherwise requires, the following words and expressions shall have the following meanings.

"Amusement Business Act"	the Act on Control and Improvement of Amusement Business etc. of Japan (Act No. 122 of 1948, as amended)
"Articles of Incorporation"	articles of incorporation of the Company as amended and supplemented from time to time
"Beijing GEO"	Beijing GEO Coffee Co., Ltd., a company incorporated in the PRC with limited liability. Beijing GEO is a subsidiary held as to 100% through Dynam Hong Kong by the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"Business Partners"	Business Partners Co., Ltd., a stock company incorporated in Japan with limited liability. Business Partners is a wholly-owned subsidiary of the Company
"Cabin Plaza"	Cabin Plaza Co., Ltd., a stock company incorporated in Japan with limited liability. Cabin Plaza is a wholly-owned subsidiary of the Company
"Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Companies Act"	the Companies Act of Japan (Act No. 86 of 2005, as amended)
"Company"	DYNAM JAPAN HOLDINGS Co., Ltd., a stock company incorporated in Japan with limited liability
"Director(s)"	the director(s) of the Company
"Dynam"	DYNAM Co., Ltd., a stock company incorporated in Japan with limited liability. Dynam is a wholly-owned subsidiary of the Company
"Dynam Business Support"	Dynam Business Support Co., Ltd., a stock company incorporated in Japan with limited liability. 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. 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. Erin International is held as to 87.61% by the Company through Dynam Hong Kong
"Genghis Khan"	Genghis Khan Travel Co., Ltd., a stock company incorporated in Japan with limited liability. Genghis Khan is held as to 100% by the Company through Dynam Business Support
"Group" or "DYJH Group"	the Company and its subsidiaries at the relevant time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

Definitions

“Japan Real Estate”	Japan Real Estate Co., Ltd., a stock company incorporated in Japan with limited liability. Japan Real Estate is held as to 100% by the Company through Yume Corporation
“Kanto Daido”	Kanto Daido Selling Co., Ltd., a stock company incorporated in Japan with limited liability. Kanto Daido is held as to 100% by the Company through Dynam Business Support
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“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 GEM 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., a stock company incorporated in Japan with limited liability. Nihon Humap is a wholly-owned subsidiary of the Company
“P Insurance”	P Insurance Co., Ltd., a stock company incorporated in Japan with limited liability. P Insurance is held as to 100% by the Company through Dynam Business Support
“PRC”	The People's Republic of China, excluding, for the purpose of this report, Hong Kong, Macau and Taiwan
“Reporting Period”	the period from 1 April 2017 to 31 March 2018
“Rich-O”	Rich-O Co., Ltd., a stock company incorporated in Japan with limited liability
“Rich-O Korea”	Rich-O Korea Co., Ltd., a company incorporated with limited liability in South Korea. Rich-O Korea is held as to 100% by the Company through Dynam Hong Kong
“SFO”	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the issued share capital of the Company
“Shareholder”	holder(s) of the issued Share(s)
“Yume Corporation”	Yume Corporation Co., Ltd., a stock company incorporated in Japan with limited liability. Yume Corporation is a wholly-owned subsidiary of the Company

TOP MANAGEMENT AND COMMITTEES

Executive Directors	Kohei SATO (<i>Chairman of the Board, President and Chief Executive Officer</i>) Haruhiko MORI (<i>retired on 22 June 2017</i>)
Non-executive Directors	Yoji SATO (<i>Senior Corporate Advisor of the Board</i>) Tatsuji FUJIMOTO (<i>appointed on 22 June 2017</i>) Noriaki USHIJIMA
Independent Non-executive Directors	Ichiro TAKANO Mitsutoshi KATO Thomas Chun Kee YIP Eisho KUNITOMO (<i>retired on 22 June 2017</i>) Kei MURAYAMA Kiyohito KANDA (<i>appointed on 22 June 2017</i>)
Audit Committee	Ichiro TAKANO (<i>Chairman</i>) Thomas Chun Kee YIP Eisho KUNITOMO (<i>retired on 22 June 2017</i>) Kiyohito KANDA (<i>appointed on 22 June 2017</i>)
Remuneration Committee	Mitsutoshi KATO (<i>Chairman</i>) Kohei SATO Kei MURAYAMA
Nomination Committee	Mitsutoshi KATO (<i>Chairman</i>) 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



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.*

