

OVERVIEW

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

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

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

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

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

- **Traditional** halls feature a greater proportion of high playing cost games, and allow smoking inside the halls. As at 31 March 2012, we operated 176 traditional halls.
- **Yuttari Kan** halls offer primarily low playing cost games with a wider variety of general prizes, and generally allow smoking. As at 31 March 2012, we operated 135 *Yuttari Kan* halls.
- **Shinrai no Mori** halls also feature primarily low playing cost games with a wider variety of general prizes, and include additional features such as a general prohibition on smoking with designated closed-off smoking areas, and the addition of a "relaxation space" in which customers can socialise. As at 31 March 2012, we operated 44 *Shinrai no Mori* halls.

BUSINESS

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

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

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

COMPETITIVE STRENGTHS

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

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

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

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

BUSINESS

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

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

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

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

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

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

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

BUSINESS STRATEGIES

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

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

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

We will continue to strategically expand our pachinko operations.

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

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

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

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

We will increase our focus on customer satisfaction and goodwill.

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

BUSINESS

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

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

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

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

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

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

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

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

BUSINESS

PACHINKO OPERATIONS

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

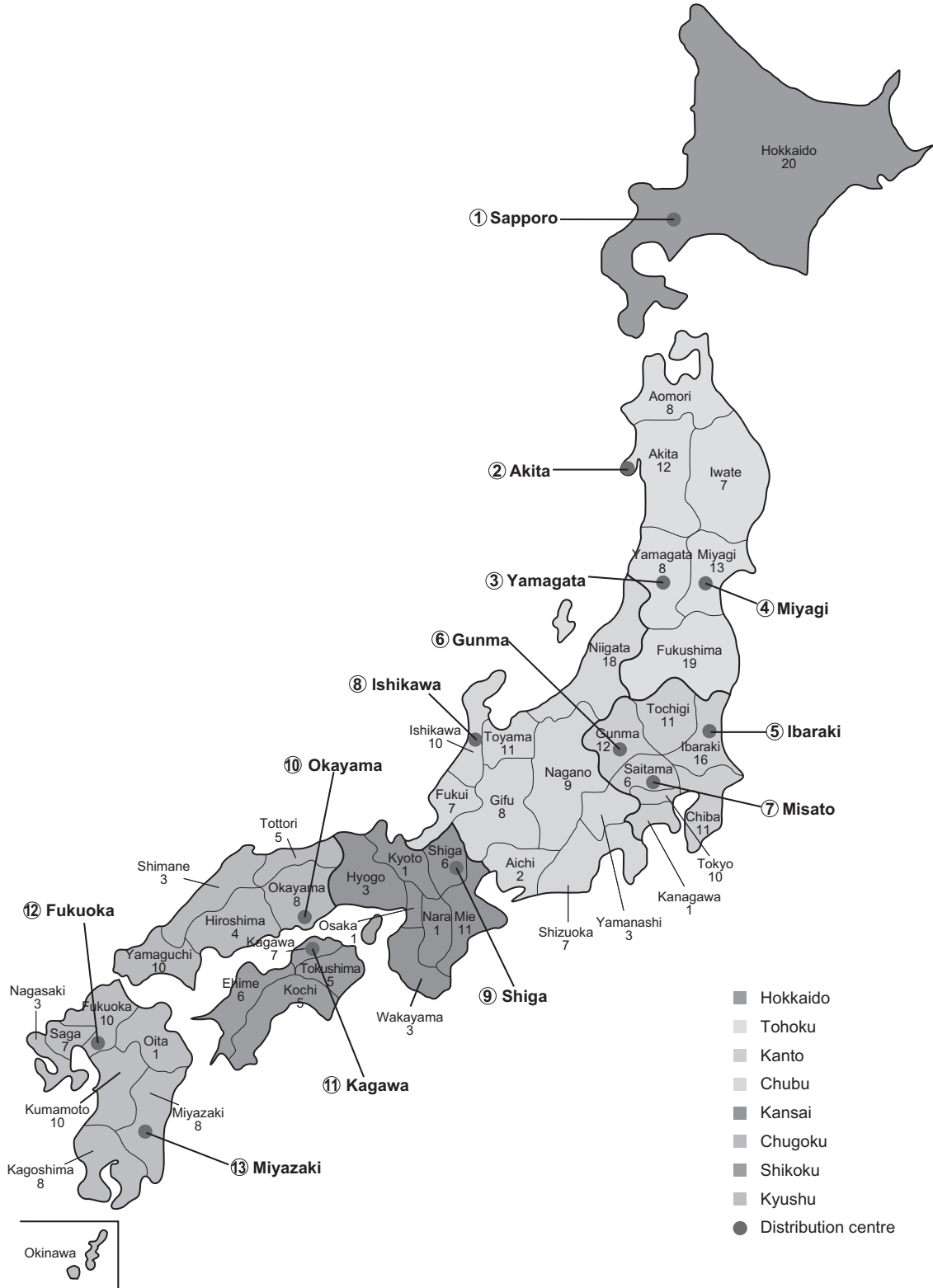
	As at 31 March		
	2010 ⁽¹⁾	2011 ⁽²⁾	2012 ⁽²⁾
Traditional	176	176	176
Yuttari Kan	130	132	135
Shinrai no Mori	25	42	44
Total	331	350	355

(1) Includes six halls operated by Cabin Plaza and Daikokuten.

(2) Includes nine halls operated by Cabin Plaza, Daikokuten and Okuwa Japan.

BUSINESS

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



BUSINESS

The following table sets forth our revenue for the Track Record Period:

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

- (1) Represents the amount received from pachinko balls and pachislot tokens rented to customers, less unutilised balls and tokens.
- (2) Represents the aggregate cost of G-prizes and general prizes exchanged by customers. See “Appendix I — Accountants’ Report”.
- (3) Represents the gross pay-ins, less gross payouts to customers.

The gaming experience

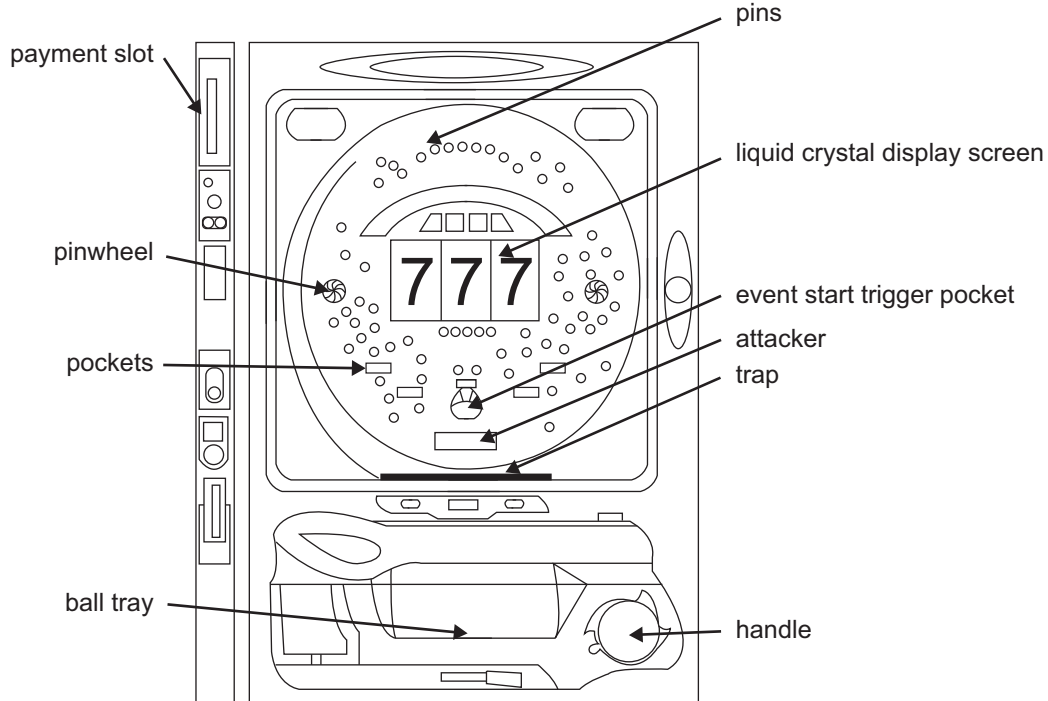
Our pachinko halls provide a venue for customers to play two types of games: pachinko and pachislot.

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

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

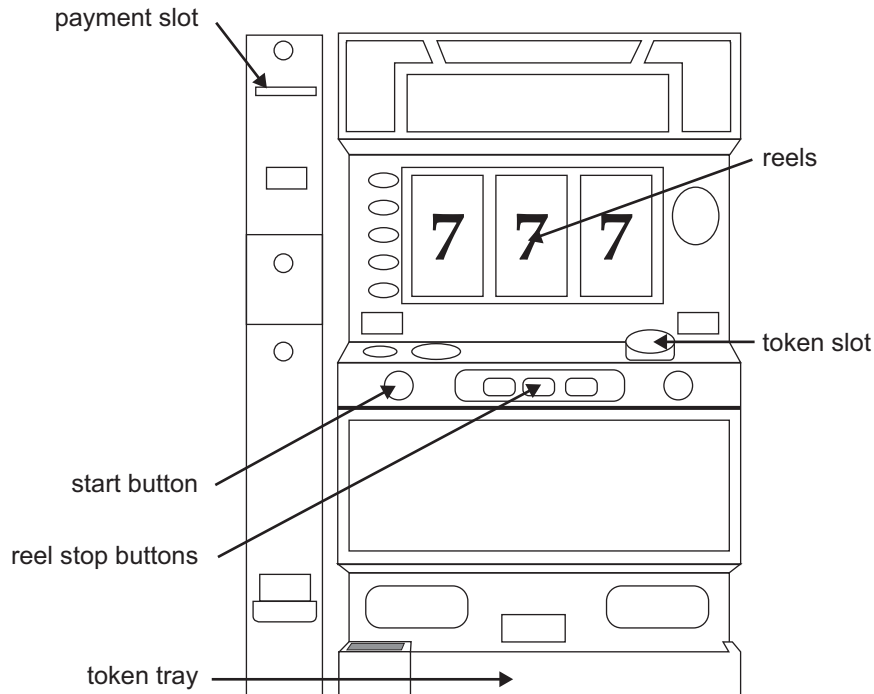
The following table sets forth the number of our pachinko and pachislot machines as at the dates indicated:

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

Pachinko

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

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

Pachislot

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

Prizes

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

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

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

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

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

Game performance

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

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

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

Three Party System

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

Parties

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

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

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

Independence

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

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

Agreements with G-prize wholesalers

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

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

BUSINESS

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

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

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

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

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

Risk management

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

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

BUSINESS

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

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

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

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

Pachinko halls

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

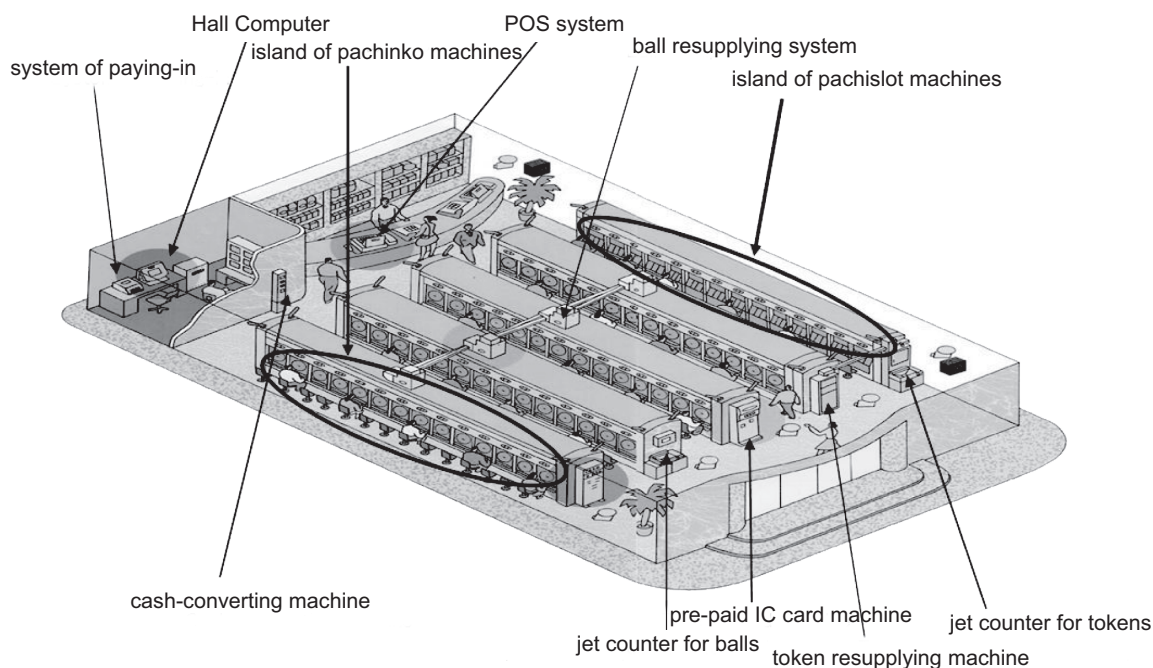
Chain-store management strategy

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

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

BUSINESS

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



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

Hall types

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

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

BUSINESS

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

Traditional halls⁽¹⁾

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

Yuttari Kan halls⁽¹⁾

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

Shinrai no Mori halls

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

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

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

BUSINESS

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

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

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

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

Traditional halls

The traditional halls operated by Dynam can be identified by our traditional *DYNAM* logo depicted below:



The main characteristics of our traditional halls are the following:

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

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

Yuttari Kan halls

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



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

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

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

Shinrai no Mori halls

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



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

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

BUSINESS

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

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

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

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

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

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

NEW HALL DEVELOPMENT

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

BUSINESS

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

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

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

- industry trends continuing to develop as we anticipate;
- our ability to respond to changes in the competitive landscape, both with respect to other pachinko operators as well as other types of entertainment;
- our ability to respond to changes in the regulatory environment for pachinko in Japan;
- favourable economic, political and other conditions in Japan and elsewhere in Asia; and
- our future financial condition, results of operations and cash flows.

MACHINE SOURCING/DISPOSAL

In conjunction with sourcing, transferring and disposal of the pachinko and pachislot machines in our halls, we operate a centralised system to (1) gather information on machine utilisation in our halls and necessary market information for planning purposes, (2) procure new machines, (3) procure second-hand machines and (4) manage, schedule and coordinate the transfer and disposal of machines.

New and second-hand machines

We regularly acquire new and second-hand pachinko and pachislot machines for installation in new pachinko halls or to replace older machines in our existing pachinko halls in order to keep up with changing customer preferences and modern trends which we believe appeal to customers. When possible, we purchase second-hand pachinko and pachislot machines; we also source a significant percentage of our replacement machines from within our Group, rotating and reallocating machines among our pachinko halls as appropriate depending on customer trends and preferences. The significant cost savings resulting from these measures are important to our profitability because our machines comprise a large portion of our operational costs. In particular, new and updated machines are a major factor in attracting the frequent players who visit our traditional halls. We therefore primarily purchase new machines for use as 4-yen machines in our traditional pachinko halls, and are able to transfer replaced 4-yen machines for use as 1-yen machines in other halls within our Group. We employ a similar strategy for the acquisition of pachislot machines, primarily purchasing new pachislot machines to be used as 20-yen machines and which may later be used as, and to replace, 5-yen pachislot machines.

BUSINESS

The following table sets forth a breakdown of our pachinko and pachislot machine costs from suppliers or second hand dealers during the periods indicated.

	Year ended 31 March						
	2010		2011		2012		
	<i>(in millions, except for percentages)</i>						
	¥	%	¥	%	¥	HK\$	%
Brand new	31,472	91.3	37,072	92.5	32,063	3,013	93.4
Second hand	2,997	8.7	2,987	7.5	2,284	215	6.6
	<u>34,469</u>	<u>100.0</u>	<u>40,059</u>	<u>100.0</u>	<u>34,347</u>	<u>3,228</u>	<u>100.0</u>

The following table sets forth our number of pachinko and pachislot machines purchased during the periods indicated:

	Year ended 31 March					
	2010		2011		2012	
	<i>(number of machines, except for percentages)</i>					
		%		%		%
Brand new	98,623	84.3	117,689	87.5	102,662	85.9
Second hand	18,430	15.7	16,773	12.5	16,913	14.1
	<u>117,053</u>	<u>100.0</u>	<u>134,462</u>	<u>100.0</u>	<u>119,575</u>	<u>100.0</u>

Each pachinko hall reviews and makes decisions regarding its mix of machines on a weekly basis. The machines selected for removal and disposal are sent to the distribution centre that supports that pachinko hall. Each distribution centre takes inventory of these machines on a monthly basis.

Our hall managers place requests for new pachinko and pachislot machines using our Machine Management System. We negotiate the relevant sales agreements with manufacturers, specifying the number and type of machines, price, payment method and the hall(s) in which the machines are to be installed. The relevant zone manager decides how many and which machines to acquire, arranges the acquisition, places the order with the manufacturer or dealer, obtains confirmation from the manufacturer or dealer and arranges for delivery of the machines to the appropriate distribution centre.

We source second-hand pachinko and pachislot machines from dealers pursuant to purchase contracts that we enter into with them. We continuously monitor the price and quality of machines sourced by each of the dealers we contract with and request detailed quotations each time we make a purchase, in accordance with our guidelines for second-hand machine acquisition.

Private brand machines

In 2006, we began developing our own private brand machines for installation in our pachinko halls, typically as 1-yen machines. Unlike “national brand” machines, which are standard machines designed and sold by manufacturers, our private brand machines are manufactured in bulk and customised according to our specifications. Using information that we gather from our membership system, we negotiate with manufacturers to produce machines specifically tailored to meet the preferences of our customers. Our private brand machines are generally much simpler and have fewer features than typical pachinko machines, and are therefore more user-friendly.

BUSINESS

For the years ended 31 March 2010, 2011 and 2012, approximately 2.7%, 4.4% and 5.8%, respectively, of our machine purchases were private brand. We intend to continue to increase the proportion of private brand machines at our pachinko halls. The average price of our private brand machines are less than the average market price of national brand machines.

Machine suppliers

We settle our payments in full with our machine suppliers in the month following the date of purchase of the machines.

In the years ended 31 March 2010, 2011 and 2012, our five largest machine suppliers accounted for approximately 67.6%, 56.2%, and 50.6%, respectively, of our total purchases of pachinko machines and pachislot machines. Our single largest machine supplier in the same periods accounted for approximately 32.2%, 23.0% and 13.1%, respectively, of our machine purchases.

None of our Directors or any of our Shareholders as of the Latest Practicable Date or any of their respective associates had any interest in any of our five largest machine suppliers during the Track Record Period.

Distribution centres

Our 13 distribution centres support our machine sourcing functions for all of our halls operated by Dynam throughout Japan. The halls operated by Cabin Plaza contract with third party for machine storage and delivery. The halls operated by Daikokuten and Okuwa Japan source their machines directly from the manufacturers. We plan to integrate the halls operated by Cabin Plaza, Daikokuten and Okuwa Japan into our distribution system by December 2012. As at 31 March 2012, we ran 13 centralised distribution centres throughout Japan, each of which was managed by our Logistics Department and handles the machines for all the halls in its region. For a map showing the locations of our distribution centres, see “— Pachinko Operations”.

Distribution centre	Location	Number of halls supported
Sapporo	Sapporo, Hokkaido	20
Akita	Oga, Akita	23
Yamagata	Higashine, Yamagata	23
Miyagi	Osaki, Miyagi	29
Ibaraki	Sakuragawa, Ibaraki	27
Gunma	Takasaki, Gunma	32
Misato	Misato, Saitama	24
Ishikawa	Kanazawa, Ishikawa	35
Shiga	Higashiomi, Shiga	33
Okayama	Tamano, Okayama	30
Kagawa	Sakaide, Kagawa	23
Fukuoka	Tachiarai, Fukuoka	25
Miyazaki	Kobayashi, Miyazaki	22
Total		346

All of our new and second-hand machines are delivered by manufacturers and dealers first to one of our distribution centres before delivery and installation at our pachinko halls. We inspect the machines for compliance with legal requirements, clean the machines and apply for the requisite approvals from the Prefectural Public Safety Commission for the transfer and installation of the machines at our halls. Our Logistics Department arranges for the delivery of

the machines from the distribution centres to the individual pachinko halls. We have video cameras monitoring the activity in our distribution centres. Our centralised distribution through these centres allows us to source machines more efficiently, reduce our operating costs, and ensure compliance with regulations governing pachinko and pachislot machines. In addition, because our distribution centres can store machines on-site pending delivery to our halls, we are able to install machines after the close of hall operating hours, thereby eliminating the need to close the hall during business hours in order to receive delivery of machines and minimising disruption to our daily hall operations. Our Machine Management System, which tracks the distribution history of each machine, may be used to file certain applications required in the distribution, replacement and removal of the machines. See “— Information Technology — Machine Management System” for more information.

Removal and disposal of machines

We arrange for removal and disposal of old machines from the pachinko halls. Old machines may be: (1) transferred to our other pachinko halls, (2) sold back or traded in exchange for a new machine to the original manufacturer, or (3) sold to second-hand dealers through an auction process to the highest bidder. If a machine is sold back to the original manufacturer, the manufacturer may purchase the entire machine or only the components it considers to be of use. Private brand machines may not be sold to second-hand dealers, and may only be transferred to another of our halls or sold back to the original manufacturer.

Compliance

Our machine purchase agreements require us and our counterparty to comply with the Amusement Business Law. In addition, we generally undertake and warrant in the agreements that we are not in violation of the laws regarding adjustment or remodelling of machines and that we will permit the Organisation for Sound Development of Pachinko & Pachislot Industry (“OSDPPI”), a third party self-regulatory organisation in Japan, to inspect our machines.

According to the Amusement Business Law and National Public Safety Commission regulations, pachinko and pachislot machines must meet certain technical standards. The Amusement Business Law also requires each pachinko hall to obtain permission before moving and installing pachinko and pachislot machines. See “Laws and Regulations”. Under these regulations, each pachinko hall must apply for and obtain the approval of the Prefectural Public Safety Commission by submitting a written application. Our machines, whether new or second-hand, are delivered to one of our 13 distribution centres, which keep track of the delivery of these machines, subsequent intra-Group transfers of machines to different halls, and the ultimate disposal of the machines. Before a new or second-hand machine is shipped to us, the prefectural police must certify the eligibility and compliance of the machine or replacement part, which is evidenced by a “Notice of Inspection” issued to the manufacturer (for new machines) or dealer (for second-hand machines) who then provide the Notice of Inspection to us. In addition, the machines are inspected both at the distribution centre and again at the pachinko hall where they are to be installed. The manufacturer (for new machines) or the dealer (for second-hand machines) also provides us with Certificates of Guarantee certifying that the machines they provide to us, which are individually identified by a unique serial number, have been inspected by the local police authorities. A similar notice and certificate are issued when machine parts are replaced. In addition, prior to operation of a new or second-hand machine, the pachinko hall must submit an application to the local police authority to request an inspection, upon completion of which an approval is granted and operation of the machine may begin. The police may inspect the machines at random after installation in the pachinko hall.

BUSINESS

Japanese regulations prohibit the installation of private brand machines in a pachinko hall that do not meet the technical specifications prescribed by law. By purchasing machines which have received approval from the Security Communications Association and the Prefectural Public Safety Commission, we reduce the risk of purchasing and installing non-compliant machines in our halls. Once approved by the Prefectural Public Safety Commission, the machine may be installed in the hall, subject to subsequent inspection by the prefectural police.

PRIZE PROCUREMENT

We procure our general prizes from our general prize suppliers and G-prizes from our G-prize wholesalers. For information on our policies and procedures for selecting and engaging potential business partners, including background checks with respect to creditworthiness and anti-social forces, see “— Pachinko Operations — Three Party System — Risk management”. Our *Shinrai no Mori* halls offer the widest variety of prizes, followed by our *Yuttari Kan* halls and then our traditional halls. In the year ended 31 March 2012, approximately 98.9% of prizes claimed in our traditional halls, in terms of value, were G-prizes. By contrast, approximately 89.7% of the prizes claimed in our *Yuttari Kan* halls, and approximately 93.8% of prizes claimed in our *Shinrai no Mori* halls, are G-prizes.

General prizes

We currently purchase our general prizes from approximately 60 general prize suppliers through our Prize Management System. Each hall manager has discretion over the types of prizes offered in each individual hall, choosing from a master list of available prizes provided by our Purchasing Department. Our Purchasing Department submits a written request for approval with our Legal Department, Administrative Management Department and Sales Service Department. Finally, our CEO must also approve the general prize supplier.

We enter into continuous purchase agreements with some of our general prize suppliers, pursuant to which we place orders based on our inventory needs. These purchase agreements are typically valid for a year, and are automatically renewed on a yearly basis. Payments to our suppliers are made on a monthly basis in the month following the month during which the goods are received. For our most popular general prizes, we utilise our POS system, which automatically places orders when the inventory of a certain prize in our Prize Management System falls below a predetermined level.

In the years ended 31 March 2010, 2011 and 2012, our five largest general prize suppliers accounted for approximately 84.1%, 85.4%, and 87.2%, respectively, of our total purchases of general prizes. Our single largest general prize supplier in the same periods accounted for approximately 36.4%, 36.0% and 37.4%, respectively, of our total purchases of general prizes.

None of our Directors or any of our Shareholders as of the Latest Practicable Date or any of their respective associates had any interest in any of our five largest general prize suppliers during the Track Record Period.

G-prizes

We currently purchase our G-prizes from eight prize wholesalers. Our headquarters appoints our G-prize wholesalers and enters into a standardised master agreement with each G-prize wholesaler who satisfies our background check criteria. Our headquarters assigns one approved G-prize wholesaler for each of our halls. Day-to-day G-prize procurement is handled by hall staff and overseen by hall managers at each individual hall. These duties include:

- deciding the quantity of G-prizes to be purchased each day subject to the limits set by our headquarters;
- placing purchase orders;
- checking the G-prizes delivered against the relevant purchase order;
- handling cash payments for G-prizes;
- maintaining the inventory of G-prizes; and
- counting and reconciling the number of G-prizes on a daily basis.

For information on internal control measures relating to G-prize procurement, see “Internal Controls and Anti-Money Laundering — Internal Controls Relating to Cash and G-prizes”.

In the years ended 31 March 2010, 2011 and 2012, our five largest G-prize wholesalers accounted for approximately 95.3%, 95.5%, and 95.5%, respectively, of our total purchases of G-prizes. Our single largest G-prize wholesaler in the same periods accounted for approximately 52.2%, 51.3% and 52.8%, respectively, of our G-prize purchases.

We, our subsidiaries, our shareholders, Directors and senior management, and associates of such persons, have not had, and do not currently have, any relationship with the G-prize wholesalers (including family, trust or employment relationships).

PACHINKO BALLS AND PACHISLOT TOKENS

We also depend on a vendor to supply pachinko balls and a vendor to supply pachislot tokens. We believe that we would be able to enter into new arrangements on similar terms with alternative or additional suppliers if necessary. Pachinko balls and pachislot tokens are generally only purchased to equip new halls that we open, and repurchases are not typically required for halls once they have commenced operations.

MARKETING

Membership system

Our membership system was implemented in 2002 for the convenience of our customers so that they would be able to carry over unused pachinko balls or pachislot tokens to subsequent visits. Each of our pachinko halls keeps its own register of members, and each member’s membership is valid only at the pachinko hall where they registered (i.e. they may only use the balls or tokens carried over at the same hall at which they were originally rented). The balls and tokens are non-transferable, and if a member is inactive for five years, any balls or tokens credited to that member are forfeited. The maximum number of pachinko balls or pachislot tokens which may be carried over is 999,999 and 199,999, respectively.

BUSINESS

Although our membership system allows customers to carry over pachinko balls and pachislot tokens for their use during subsequent visits to the hall, membership cards contain only member information and no record of the balls or tokens to be carried over. A customer must present his identification card to verify his identity when he applies for membership. Upon issue of a membership card, a member must enter a password or present his identification card in order to use or access his data and the stored balls or tokens on the card. Our Japan Legal Adviser has advised us that, because the only record of the number of balls and tokens carried over is stored on the servers of our hall computers and our IT systems, our membership system does not constitute written documentation of the hall holding the balls or tokens for the customer, as the purpose of the restriction on written documentation is to prevent customers from trading rented balls or tokens by means of written documentation outside of the pachinko hall.

There is no fee associated with membership at any of our pachinko halls. Any customer may apply for membership and become a member as long as they provide verification of their age and identity. Our membership system has now become a marketing tool to target and encourage repeat customers, while also providing us with useful information about our customer demographics and preferences for various types of pachinko machines. We use this information to determine the features and specifications to include in our private brand machines, as well as the overall mix of machines in our pachinko halls. See “— Machine Sourcing/Disposal” for more information. We also send periodic newsletters and notices to our registered members.

As at 31 March 2012, we had 284,811 active members at our pachinko halls, defined as a member who has made one visit to the hall within the preceding calendar month. The following table shows our active members grouped by age and gender as at 31 March 2012:

	<u>Younger than 30 years old</u>	<u>30–39 years old</u>	<u>40–49 years old</u>	<u>50–59 years old</u>	<u>60 years old and older</u>	<u>Total</u>
Male	11.5%	14.7%	14.8%	16.0%	18.2%	75.1%
Female	2.3%	3.4%	4.4%	6.1%	8.7%	24.9%

Advertising

We conduct advertising, public relations and sales promotion activities to support our pachinko operations. We set a budget and implementation guidelines for advertising. Our sales and marketing team gathers information from each zone regarding customer preferences and playing trends, and proposes sales promotion plans. Based on the localised market information gathered from each zone by our sales team, we engage external advertising agencies that create advertising plans and materials.

We advertise through print media, television commercials, internet advertising, and special promotions. We use liquid crystal display advertisements and POP (point of purchase) advertisements in our halls, sponsor television programs targeting younger and elderly audiences, and place print media advertisements in coffee shops and restaurants. To reach out to a wider audience, we have a video commercial on Youtube, a player-targeted website and a Twitter feed. A key part of our advertising developed by external advertising agencies has been the introduction of a cast of animated characters, known as “Moories”, which are associated

BUSINESS

with our pachinko halls, in particular our *Shinrai no Mori* brand. These characters were designed to appeal to our potential female customer base. We have engaged a scriptwriter to design a story line for the Moories characters and the first story was published in “*Josei Seven*”, a weekly women’s magazine, in October 2011.



We have also created two “Yuttaries”, which are characters associated with our *Yuttari Kan* brand:



Promotional and advertising activities in the pachinko industry are regulated by Japanese law, which prohibits advertisements and promotions of pachinko hall businesses that imply improper adjustments to pachinko or pachislot machines, illegal alteration of payout probabilities and other acts that may encourage a “passion for gambling”. Failure to comply with the relevant regulations and restrictions could result in various penalties administered by the authorities, the most severe of which would be a cancellation of our license to operate a pachinko hall business. In order to ensure our compliance with these regulations on advertising and promotional activities, our Legal Department monitors these activities. For information on regulation of the pachinko industry and related advertising, see “Laws and Regulations — Advertising and promotion regulations”.

For the years ended 31 March 2010, 2011 and 2012, we spent approximately ¥6,343 million, ¥7,666 million and ¥6,265 million (equivalent to approximately HK\$589 million), respectively, on advertising and promotional activities, representing approximately 4.7%, 5.3% and 4.5%, respectively, of our hall operating expenses.

INFORMATION TECHNOLOGY

Our IT systems are managed by our IT department, and plays a crucial role in the operation of our business and the collection and preparation of financial and operational information . The system planning division of our IT department strategically plans and manages our systems and the related contracts with our vendors. The Project Management division develops our systems, performs patch management and teaches users to use the system. The System Support division provides support for users and data maintenance, and is also responsible for information security.

Our IT system consists of a network of software systems, which includes our Hall Management System, Sales Management System, Competing Hall Analysis System, Numerical Analysis System, Prize Management System and Human Resources Management System. These systems and the corresponding data centre are independently provided and maintained by PA Network Laboratory Co., Ltd. (“PA Net”), Mars Engineering Corporation (“Mars”), and other third party hall equipment and software vendors. PA Net provides computer systems that

gather information from machines and related equipment in our halls and also supports the hall server that consolidates data from all the PA Net and Mars systems. The Mars systems manage pre-paid IC card machines, the payment slot into which money or pre-paid IC cards are inserted to obtain balls or tokens, the jet counters for pachinko balls and pachislot tokens and prize management information. We have taken precautionary measures to protect our IT systems and data centre with: (1) a data backup system, (2) an emergency power generation system and (3) earthquake reinforcement at our data centre. See “Internal Controls and Anti-Money Laundering — Internal Controls Relating to Information Technology and Computer Systems”.

As at 31 March 2012, our IT systems supported the operations of our 346 halls operated by Dynam. The halls operated by Cabin Plaza and Okuwa Japan joined our group portal site and mail service in December 2011 and November 2011, respectively. We plan to fully integrate the halls operated by Cabin Plaza, Daikokuten and Okuwa Japan into our Group-wide IT system by December 2012. Currently, these subsidiaries send daily reports including operational and financial data to our headquarters.

Hall Management System

We have installed a computerised system (“Hall Computer”), developed by PA Net, at our pachinko halls. The Hall Computer collects real-time information on the number of pachinko balls or pachislot tokens rented, played and paid out at each pachinko and pachislot machine and transmits it to our Hall Management System every hour via a decrypted line. Each hall manager and zone manager is granted access to view this data within their respective hall/zone so that they may monitor hall operations; this also allows managers to quickly detect irregular activities at the pachinko halls. However, only our headquarters management team is granted access to the data collected from all of our pachinko halls for monitoring the overall performance and machine utilisation of our hall operations.

Sales Management System

The Hall Computers also transmit information on the number of customers, pay-ins and value of prizes claimed to the Sales Management System. Our Sales Management System uses the information from the Hall Computers to generate performance reports, providing information such as utilisation rates of machines and profits from our halls, which we use to analyse performance and set budgets. We can compare and analyse this operating data against information regarding our competitors that is collected by our Competing Hall Analysis System.

Competing Hall Analysis System

In order to understand our competition in each zone, we conduct surveys of our competitors during our competing halls’ operational hours each day. The survey results (showing the number of players in the hall and the types of machines being played) are input into our Competing Hall Analysis System and transmitted to our Numerical Analysis System every day. The collected data presents a clearer picture to our management of our relative number of clients, utilisation and market share. Our hall managers closely monitor this information and make strategic decisions and promotional campaigns to draw in more business based on this data.

Numerical Analysis System

Our Numerical Analysis System’s major functions are (1) monitoring the overall management of our pachinko halls and (2) collecting information on machines to use in planning future sourcing strategy. It receives data collected by our Hall Management System and Competing Hall Analysis System on a daily basis. This system generates business analysis

BUSINESS

reports showing operations, actual sales and profit/loss of each machine based on the data from our Hall Management System. Managers can view the data collected from these reports as a whole or by selected variables (such as by individual machine or by type of machine) and compare current results with historical data. Read in conjunction with the information received from the Competing Hall Analysis System, and compared to management's business plans, this report allows our management team to closely monitor, plan and make well-informed, timely decisions regarding business strategy. Information gathered from machines regarding utilisation, money spent by customers per machine and popularity factor prominently in our decisions in acquiring new and/or second-hand machines.

Machine Management System

Our Machine Management System plays an important role at each stage from machine purchasing to machine disposal. This system collects and manages information regarding the replacement, ordering, inspection, quality control, relevant approvals, transfer and disposal of new and second-hand machines. It can track the status of individual machines based on the unique identification number of each machine, which is organised in the system's database. This data is used in conjunction with our Sales Management and Hall Management Systems.

Prize Management System

Our Prize Management System is provided by Mars. Through our POS system, we manage the inventory of our general prizes and G-prizes. This information is transmitted to our Prize Management System every 15 minutes via a decrypted line. In this way, we are able to keep up-to-date and accurate inventories of our various prizes, consolidate orders of general prizes, and when appropriate, arrange for periodic, automatic purchases of products with a high turnover rate. This system also provides a reference point for estimating the volume of future prize purchases based on this cumulative historical data.

Human Resources System

Our Human Resources Management System manages the records of all the employees in our Group. Using information collected from the Employee Management System, this system calculates payroll, including salaries and bonuses, for our Group's employees.

Security Measures

Our SuperStream-CORE System (which records company-wide accounting transactions), Machine Management System and Sales Management System are accessible to authorised Dynam staff only. Staff must have a password to access these systems at the application level. These systems may not be altered without the approval of the System Support division manager. Our networks are protected by firewalls and anti-virus software. Access to our networks by our employees is also limited by those with password authorisation. For more information on control over these systems, please see "Internal Controls and Anti-Money Laundering — Internal Controls Relating to Information Technology and Computer Systems".

COMPETITION

According to Yano Research, the pachinko business in Japan is fragmented, comprising approximately 4,000 pachinko hall operators throughout Japan in 2010. Our major competitors are large pachinko operators. We also compete with other types of entertainment and gaming activities, including web-based gaming, potentially interactive gaming channels, and horse racing in Japan. We may also face competition from casinos and other gaming venues, particularly contemplated legislation to approve the operation of casinos in Japan. See "Risk

BUSINESS

Factors — Risks Relating to Our Business — We face intense competition in Japan”. We compete on the basis of variety and type of pachinko and pachislot games offered, types of prizes offered at our halls and players’ other personal preferences.

In order to remain competitive in the pachinko industry, we conduct a “competing hall analysis” of our major competitors and record the results of our surveys on a daily basis. We use the information gathered from this analysis in order to plan our future business and marketing strategies and evaluate the effectiveness of our current business and operations. See “— Information Technology — Competing Hall Analysis System”.

EMPLOYEES

As at 31 March 2012, we had 4,384 permanent full-time employees, 951 contract full-time employees, 4,761 part-time employees and 28 management staff. Of our employees, 8,774 are employed in our pachinko halls. The following table sets forth the approximate number of our employees by function as at 31 March 2012:

Function	Number
Management	28
Customer service and technical support	41
Sales and marketing	643
Hall management	1,833
Hall attendants	6,941
Procurement	23
Finance	10
IT	29
Others	576
Total	10,124

Among our management staff are 19 regional zone managers who are responsible for overseeing the daily operations of the pachinko halls located in their respective zones. A typical pachinko hall is staffed with one Store Manager, four Assistant Managers, approximately five full-time and 15 part-time employees (hired by the hall manager as allowed by the budget set by our headquarters).

Our permanent full-time employees, who are hired by the headquarters, may be relocated to different pachinko halls run by us throughout Japan. These employees mainly handle various managerial and administrative functions at our headquarters and pachinko halls. They receive performance evaluations on a semi-annual basis. We do not enter into formal written employment contracts with our permanent full-time employees. Consistent with common practice in Japan, such employees are subject to working regulations which we establish and keep on file with the labour standards inspection office. These working regulations cover various matters, including but not limited to hiring, compensation, annual vacation policy, duties of the employee, and disciplinary measures. We provide our employees with a copy of these working regulations upon employment. In the event of disputes regarding terms of employment or other related matters, the working regulations, as well as applicable laws and regulations, will determine the respective duties and rights of us and our employee.

Our contract full-time employees are locally employed at individual pachinko halls and are involved in the pachinko hall daily operation and related tasks in the pachinko halls. We enter into individual employment contracts with these employees, who are evaluated every six months for bonuses and may renew their employment on an annual basis. Our part-time employees are employed to perform supporting functions in the pachinko halls such as clerical work, car park attendant duties or other tasks specified in their contracts. We also enter into individual

BUSINESS

employment contracts with these employees, who are evaluated every six months and may be subject to a probation period, at the end of which the part-time employee may have the opportunity to re-contract for employment. The employment contracts with our contract full-time and part-time employees specify matters such as position, term of employment, responsibilities, remuneration and grounds for termination.

Total remuneration for full-time employees at our headquarters and pachinko halls as well as for management staff comprises basic salaries and bonuses, while the remuneration for part-time employees at our pachinko halls is calculated at an hourly rate as specified in the respective employment contracts.

Labour union

We established a labour union, of which all of our employees, other than management and certain employees with limited responsibilities, are members, in 1998. Our labour union collectively bargains on behalf of our employees for compensation and welfare-related issues, participates in labour-management consultations and handles other consultations and investigations as necessary for the welfare of our employee members. We have not experienced any strikes or other labour disturbances which have interfered with our operations. We believe that we have good relations with our employees.

As at the Latest Practicable Date, our Group was in compliance with all applicable labour and employment regulations. We currently have in place internal control systems and risk management procedures to monitor compliance with labour, employment and other applicable regulations. Going forward, our Company, through its legal department, will continue to monitor all labour issues to ensure compliance with all applicable labour and employment regulations.

Recruitment and training

We recruit, place and train our employees with a focus on new graduate recruitment. In the years ended 31 March 2010, 2011 and 2012, we hired approximately 430, 520 and 250 new graduates, respectively, from community colleges and universities across Japan. Approximately 60% of the new graduates we have hired since 1989 are still employed by us, and approximately 40% of our managers were persons who joined us as new graduates.

During the years ended 31 March 2010, 2011 and 2012, we spent approximately ¥156 million, ¥165 million and ¥154 million (equivalent to approximately HK\$14 million), respectively, per year on training for our staff. We own training facilities in Shizuoka and Yamaguchi Prefectures where we conduct trainings for our employees. Since 1997, we have held a “Life College” training program for all of our full-time employees in order to foster a sense of unity among our staff. We also provide educational opportunities to all our employees periodically, which may include internal study meetings and training programs, as well as specific trainings tailored to management staff, sales executives and customer service staff. We aim to provide all of our employees with at least one opportunity to participate in our educational and training programs each year.

ENVIRONMENTAL MATTERS

We are subject to national and prefectural laws, ordinances and regulations in Japan with respect to noise and light pollution. In particular, we are subject to the Amusement Business Law, which establishes restrictions on noise and vibration levels in the areas surrounding our pachinko halls.

BUSINESS

The Amusement Business Law specifies the acceptable noise levels for certain times of the day. Every pachinko hall must also ensure that the noise levels in the area surrounding the hall do not exceed any limits set by their respective prefectural ordinances. See “Laws and Regulations — Environmental regulations” for further information on laws regulating noise and vibration. Each machine must be set to a specified noise level, and special doors and/or windows are installed at hall entrances to minimise the noise that escapes from the hall. At *Shinrai no Mori* halls, we install additional soundproofing equipment such as sound-insulating materials on the ceilings and a “personal system” of individual jet counters at each machine in order to further reduce the noise level.

During the Track Record Period and as at the Latest Practicable Date, there have been no material violations of the environmental regulations applicable to our operations, all the required permits and environmental approvals for construction have been obtained, and there have been no administrative penalties imposed upon our Group as a result of violation of environmental rules and regulations. Our Japan Legal Adviser is of the opinion that our Group complies with Japanese regulations and environmental rules and regulations applicable to it.

PROPERTIES AND FACILITIES

Overview of property interests

Our core business is operating pachinko halls. Over 85% of the space within our property portfolio is being used as pachinko halls. As at 30 June 2012, we owned and rented 361 pachinko halls of which two are permanently closed. One hall was closed due to lower than expected operating profits. The other hall temporarily suspended operations, and subsequently permanently closed, due to its close proximity to another of our halls which had resulted in losses to both halls. We currently have no concrete plans for these two properties, but these two halls have ceased operations and plans for their future use are under review. The remaining 359 pachinko halls have a total gross floor area of approximately 459,553 sq.m. (the “Hall Operation Area”). Of these, 355 were occupied and operated by us and four were leased out to third party pachinko operators.

We also have, as supporting and back up facilities, 22 office locations, 14 distribution centres, three training centres and other property interests, including residential accommodations, taking our entire property portfolio to a total of 414 properties with a total gross floor area of approximately 518,102 sq.m. throughout Japan. We have 100% attributable interest in our Group’s property portfolio. We are not aware of any environmental issues, title defects or litigation liabilities with respect to any of our Group’s properties. We do not have any plans for disposal, construction or conversion of use for any of our Group’s properties in the near future.

The Hong Kong dollar amounts in this section are translated at the rate of ¥10.29 to HK\$1.00, which was the exchange rate prevailing on 29 June 2012 (i.e. the last business day in June 2012).

Pachinko halls

We have 359 pachinko halls in 46 of 47 prefectures throughout Japan, excepting only Okinawa. Most of them are located in rural areas alongside arterial roads with roadside retail outlets and equipped with large scale parking lots. Our pachinko halls in Tokyo are the primary exceptions to our general rural pachinko hall model. Our pachinko halls in the Tokyo metropolitan area are located in vibrant station-front commercial areas with medium and high-rise commercial buildings. Thirty-seven of our pachinko halls are subject to five mortgages for various amounts ranging from ¥1 billion (equivalent to approximately HK\$97 million) to ¥2.4

BUSINESS

billion (equivalent to approximately HK\$233 million), for a total amount of ¥8 billion (equivalent to approximately HK\$777 million). Our other pachinko halls are not the subject of any mortgage or other security interest.

Offices

We have 22 offices throughout Japan. They are mainly located in prefecture capitals or cities of equivalent scale, and are located in commercial office areas that are within walking distance from their nearest stations. Our offices are not the subject of any mortgage or other security interest.

Distribution centres

We have 14 distribution centres located throughout Japan. They are mainly in rural areas and are located in areas of logistics centres and business facilities with good accessibility to major expressways and arterial roads. Our distribution centres are not the subject of any mortgage or other security interest.

Training centres

We also have three training centres in Japan, one of which is located in the Tokyo residential area interspersed with detached houses and low-rise apartment buildings. The other two training centres are located in quiet rural areas with recreational facilities, holiday houses, and golf courses in the neighbourhood. Our training centres are not the subject of any mortgage or other security interest.

Vacant land

We own three pieces of vacant land in rural areas of Japan. The area surrounding the vacant land primarily consists of rice fields and wild fields. Our vacant lands are not the subject of any mortgage or other security interest.

Others

Our 13 other properties comprise two closed pachinko halls with re-positioning being reviewed, four residential and six retail premises and one garage which are all owned by our Group. These properties are not the subject of any mortgage or other security interest. We own and occupy our residential and garage properties which are located in residential districts of the eastern part of Tokyo where detached houses and apartment buildings are prevalent.

The six owned retail properties are currently let to third parties who operate them as convenience stores, sushi restaurants or mobile phone retail outlets. All retail properties are located adjacent to our pachinko halls in the rural areas.

Of our properties, 363 are owned and 51 are rented. Amongst our owned properties, 347 are occupied by us for our own use or operations, three are vacant land parcels, two are closed for re-positioning and 11 are investment properties leased to third parties.

BUSINESS

The following tables set forth a summary of our portfolio at 30 June 2012:

Owned properties occupied by our Group	Quantity		Gross Floor Area (sq.m.)		Approximate size range (sq.m.)	Year of completion
Pachinko halls ⁽¹⁾	325	92.3%	403,007	91.6%	563–11,203	1980–2011
Offices	2	0.6%	4,082	0.9%	415–3,667	2001–2008
Distribution centres	13	3.7%	22,709	5.2%	1,581–1,841	1985–2008
Training centres	2	0.6%	6,672	1.5%	139–6,533	1997–2001
Vacant land	3	0.9%	— ⁺	—	3,533–60,404 ⁺	—
Others	7	1.9%	3,313	0.8%	41–1,124	1964–2007
Subtotal	352	100.0%	439,783	100.0%		

Owned properties held for investment	Quantity		Gross Floor Area (sq.m.)		Approximate size range (sq.m.)	Year of completion
Pachinko halls ⁽²⁾	4	36.4%	4,678	59.1%	979–1,252	1994–2005
Distribution centre	1	9.1%	1,326	16.8%	1,326	1997
Others	6	54.5%	1,906	24.1%	132–793	1998–2009
Subtotal	11	100.0%	7,910	100.0%		

Rented properties	Quantity		Gross Floor Area (sq.m.)		Approximate size range (sq.m.)	Year of completion
Pachinko halls ⁽¹⁾	30	58.8%	51,868	73.7%	308–6,104	1984–2008
Offices	20	39.2%	6,906	9.8%	130–1,864	1985–2000's
Training centre	1	2.0%	11,635	16.5%	11,635	1977
Subtotal	51	100.0%	70,409	100.0%		

(1) All 355 pachinko halls were operated by us.

(2) All four pachinko halls were operated by Independent Third Parties.

Summary	Quantity		Gross Floor Area (sq.m.)		Approximate size range (sq.m.)	Year of completion
Pachinko halls	359 ⁽¹⁾	86.7%	459,553	88.7%	308–11,203	1980–2011
Offices	22	5.3%	10,988	2.1%	130–3,667	1985–2008
Distribution centres	14	3.4%	24,035	4.6%	1,326–1,841	1985–2008
Training centres	3	0.7%	18,307	3.5%	139–11,635	1977–2001
Vacant land	3	0.7%	— ⁺	—	3,533–60,404 ⁺	—
Others	13	3.2%	5,219	1.1%	41–1,124	1964–2009
Total	414	100.0%	518,102	100.0%		

⁺ There are no buildings on the vacant land parcels and therefore they have no gross floor area. The site area of the vacant land is 71,639 sq.m.

(1) Out of the 359 pachinko halls, 355 were operated by us; four were operated by Independent Third Parties.

We currently receive a total monthly rent of approximately ¥28.3 million (equivalent to approximately HK\$2.8 million) from the 11 properties held for investment, and we currently pay a total monthly rent of approximately ¥143.3 million (equivalent to approximately HK\$13.9 million) for the 51 rented properties.

BUSINESS

All of our property interests of property activities are wholly-owned by our Group. Set out below is a summary of our property interests of property activities prepared in accordance with Appendix 26 of the Listing Rules:

Properties held for investment ⁽¹⁾	Gross Floor Area		Attributable interests to our Group	Range of year of leasehold expiry	Range of year of completion	Occupancy rate	Range of effective rent (per month)		Attributable market valuation as at 30 June 2012 (in millions)	
	(sq.m.)	Quantity					¥	HK\$	¥	HK\$
Pachinko halls	4,678	4	100%	2023–2027	1994–2005	100% let out	3,813,000–5,544,000	370,553–538,776	692	67
Distribution centres	1,326	1	100%	2017	1997	100% let out	600,000	58,309	—	—
Others (retail)	1,906	6	100%	2021–2026	1998–2009	100% let out	380,289–5,000,000	36,957–485,909	352.5	34.3
	<u>7,910</u>	<u>11</u>					<u>28,312,062</u>	<u>2,751,415</u>	<u>1,044.5</u>	<u>101.3</u>

(1) Save for one retail property interest which is freehold, all other retail property interests held for investment are expiring during the period from 2021 to 2026.

Exempt property interests

Pursuant to (i) amendments to Chapters 5 and 11 of the Listing Rules (the “Amended Listing Rules”) and (ii) the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) (Amendment) Notice 2011 (the “Class Exemption Notice”), both which came into effect on 1 January 2012, exempt property interests are not required to be the subject of a valuation report set out in a prospectus. Whether a property interest is exempt depends on its carrying amount being below, in the case of property interests of non-property activities, 15% of total assets, and in the case of property interests of property activities, 1% of total assets (assuming they together do not exceed 10% of our Group’s total assets). Operating leases are also exempt.

Our Directors have considered the requirements under Rules 5.01A and 5.01B of the Listing Rules when assessing whether any of our property interests is subject to the requirement to be set out in a valuation report in this Prospectus.

Our Directors confirmed that, as at 30 June 2012, the latest audited consolidated balance sheet date, (i) the aggregate carrying amount of each of our property interests of property activities with a carrying amount of less than 1% of our total assets does not exceed 10% of our total assets in compliance with Rule 5.01A(1) of the Listing Rules; and (ii) each of our property interests of non-property activities has a carrying amount of less than 15% of our total assets in compliance with Rule 5.01A(2) of the Listing Rules. Carrying amounts were determined on the basis of the amounts reflected in our assets register.

As at 30 June 2012, our Directors confirm, pursuant to Rule 5.01B(2)(b) of the Listing Rules, that no single property interest of our Group’s non-property activities has a carrying amount of 15% or more of our total assets.

As at the Latest Practicable Date, our Directors confirm that no single property interest of our Group is material to our Group’s total assets, and none of our property interests is individually material to us in terms of turnover contribution or rental expenses.

Accordingly, all of our Group’s property interests are exempt from the requirement to be set out in a valuation report in this Prospectus.

BUSINESS

The following table sets forth the numbers of our Group's property interests by the categories under the Amended Listing Rules and the Class Exemption Notice.

	Halls	Offices	Distribution Centres <i>(number of properties)</i>	Training Centres	Vacant Land	Others
Properties of non-property activities (excluding operating leases)	325	2	13	2	3	7
Properties of property activities	4	—	1	—	—	6
Operating leases	30	20	—	1	—	—
	<u>359</u>	<u>22</u>	<u>14</u>	<u>3</u>	<u>3</u>	<u>13</u>

The following table sets forth the market values of our Group's property interests by the categories under the Amended Listing Rules and the Class Exemption Notice.

	Halls		Offices		Distribution Centres		Training Centres		Vacant Land		Others	
	<i>(in millions)</i>											
	¥	HK\$	¥	HK\$	¥	HK\$	¥	HK\$	¥	HK\$	¥	HK\$
Properties of non-property activities (excluding operating leases)	61,194	5,947	1,263	123	2,771	269	314	31	82	8	753	73
Properties of property activities	692	67	—	—	—	—	—	—	—	—	353	34
Operating leases	—	—	—	—	—	—	—	—	—	—	—	—
	<u>61,886</u>	<u>6,014</u>	<u>1,263</u>	<u>123</u>	<u>2,771</u>	<u>269</u>	<u>314</u>	<u>31</u>	<u>82</u>	<u>8</u>	<u>1,106</u>	<u>107</u>

According to the independent property valuer, the total market value of our property portfolio was ¥67.42 billion (equivalent to approximately HK\$6,552 million) as at 30 June 2012. Pachinko halls constituted approximately 92% of the total value, while distribution centres comprised the second largest portion, accounting for approximately 4% of the total value.

As at 30 June 2012, we operated 355 pachinko halls in 46 prefectures throughout Japan. We either own or rent the land on which our pachinko halls are located, and either lease or construct (and therefore own) the buildings that house the pachinko operations. The gross floor area for all the land owned or leased by us on which our operating pachinko halls are located comprise approximately 454,876 sq.m. throughout Japan. 299 locations, representing approximately 84% of this gross floor area, are on rented land. We have 15 leases expiring prior to and including 2017, 86 leases expiring between 2018 and 2022 (inclusive), and 198 expire after 2022.

The gross floor area for all the buildings owned or rented by us that house our 355 operating pachinko operations comprise approximately 454,876 sq.m. throughout Japan. 30 buildings, representing approximately 11.4% of this gross floor area, are rented, and the remaining 325 buildings were constructed by us. Under the Civil Code and the Leases Act and in accordance with the terms of our lease agreements, while the lessor owns the title of the land we lease, we own the title of the premises we constructed on such land. Our Japan Legal Adviser has confirmed that this arrangement of title ownership is in compliance with the Civil Code, the Leases Act and all applicable laws and regulations in Japan.

BUSINESS

We are required pursuant to the terms of our lease agreements to return the land to the lessor in its original condition as a vacant site upon expiration or termination of the lease. Thus, if we do not renew all of our leases, we will be required to demolish the 269 pachinko halls that we have constructed on the parcels of land we have leased, as at 30 June 2012, as and when each such lease expires. During the Track Record Period, we did not have any significant difficulty in securing locations for our new pachinko halls, nor did we fail to renew any of our lease agreements for pachinko hall sites. See “Risk Factors — Risks Relating to Our Business — We may not be able to renew leases or other contractual arrangements for the use of existing pachinko hall space, or to obtain desirable sites for the expansion of our operations, on satisfactory terms or at all”.

The following table reflects our property interests in the land and building for the pachinko halls we operated as at 30 June 2012:

	Own building and own land		Rent building and rent land		Own building and rent land	
	<i>(number of halls, percentage of total 355 properties)</i>					
Traditional	32	9.0%	15	4.2%	136	38.3%
<i>Yuttari Kan</i>	24	6.8%	9	2.5%	95	26.8%
<i>Shinrai no Mori</i>	—	—	6	1.7%	38	10.7%
Total	56	15.8%	30	8.4%	269	75.8%

The lease contracts for our pachinko halls operated on leased land consist of two types, namely (1) fixed term lease contract and (2) standard lease contract.

In a fixed term lease contract, the lessee must return the land as a vacant lot upon expiry of the lease contract. The lessee under a standard lease contract enjoys security of tenure because the contract may be automatically renewed unless the lessor has justifiable reasons for re-entry upon expiry of the lease contract.

BUSINESS

The earliest expiration date of the land lease contracts for the 269 operated pachinko halls is in 2015 while the latest expiration date is in 2033. The table below summarises the type of lease contracts for those 269 operated pachinko halls.

Type	Year of expiry of land lease contract	Quantity		
		Fixed term lease	Standard lease	Sub-total
Traditional	By 2015	1	—	1
	2016–2020	17	2	19
	2021–2025	97	—	97
	2026–2030	13	3	16
	2031–2035	2	1	3
Yuttari Kan	By 2015	1	1	2
	2016–2020	5	1	6
	2021–2025	70	1	71
	2026–2030	13	1	14
	2031–2035	2	—	2
Shinrai no Mori	By 2015	—	—	—
	2016–2020	1	—	1
	2021–2025	—	—	—
	2026–2030	37	—	37
	2031–2035	—	—	—
Sub-total	By 2015	2	1	3
	2016–2020	23	3	26
	2021–2025	167	1	168
	2026–2030	63	4	67
	2031–2035	4	1	5
Total		259	10	269

In the event the land lease contracts are not renewed, we are required to demolish the buildings located on the land and return the land in its original condition to the lessor. We estimate that the demolition costs of those buildings range from ¥12,000 to ¥20,000 per sq.m. gross floor area excluding other costs.

INTELLECTUAL PROPERTY

Our Group's brand names, particularly our traditional *DYNAM* brand as well as our *Yuttari Kan* and *Shinrai no Mori* brands, are valuable assets for our Company and operations.

As at the Latest Practicable Date, our Group had 18 registered trademarks and seven registered patents that are material to our pachinko operations.

During the Track Record Period, all of our Group's pachinko halls in Japan are operated under the trademarks of , , , , , , , , , , , , , やすみ時間 and . These trademarks have been registered by our Group in Japan and are each valid for ten years from the date of registration. The trademarks have commencement dates ranging from June 2007 to June 2010 and will expire between June 2017 and June 2020. These trademarks are of material importance to our business operations, financial position and prospects. As at the Latest Practicable Date, our Japan Legal Adviser has confirmed that we own and have valid and enforceable rights to use our intellectual property rights as set forth here. Please refer to the paragraphs headed “Statutory and General Information — Our material intellectual property rights” in Appendix V to this Prospectus for details of intellectual property rights that are material to our business.

BUSINESS

INSURANCE

We maintain fire insurance for our pachinko halls and operating properties from fire damage; movable property insurance, which insures our general prizes and G-prizes from theft and burglary; and public liability insurance for third party physical injuries and property damages. Each such policy has customary exclusions. We plan to purchase similar policies for our future properties. See also “Risk Factors — Risks Relating to Our Business — Our insurance coverage may not be adequate to cover all possible operational losses that we could suffer. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future”.

We believe that our insurance coverage is consistent with industry and regional practice and is adequate for our business operations. From time to time, we review and assess our risks and adjust our insurance coverage as appropriate.

Losses from the Great East Japan Earthquake

For the years ended 31 March 2011 and 2012, we recorded earthquake losses of approximately ¥195 million and ¥979 million (equivalent to approximately HK\$92 million), respectively, as a result of the Great East Japan Earthquake. However, as is consistent with general business and industry practices in Japan, we have not carried, and currently do not carry, earthquake insurance.

LEGAL PROCEEDINGS AND COMPLIANCE

From time to time, we and our subsidiaries have been involved in legal proceedings or other disputes in the ordinary course of our business which are primarily disputes with our customers, suppliers and employees, and we have not incurred significant legal costs and expenses in connection with these legal proceedings. During the Track Record Period and up to the Latest Practicable Date, we have not been the subject of any administrative proceedings and have not been imposed any fines or penalties by regulatory authorities. During the Track Record Period and up to the Latest Practicable Date none of our Directors or senior management have been, or are, the subject of any regulatory inquiry or investigation in Japan. Other than one incident in 2005, we have also been, and currently are, in compliance with all applicable laws, rules and regulations. See “Internal Controls and Anti-Money Laundering — Overall Internal Control Compliance”. We are not aware of any material legal or administrative proceedings, claims or disputes currently pending or threatened against us. Neither we, nor our Directors have been a party to any material legal or administrative proceeding during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, our Company was in compliance with any and all conditions imposed on it under licences granted by the relevant Prefectural Public Safety Commission. The Public Safety Commission has not imposed any non-standard conditions on or cancelled any of the licenses held by the Group. During the Track Record Period and up to the Latest Practicable Date, none of our pachinko hall operations have been suspended due to violations of the Amusement Business Law or other applicable laws and regulations.