You should read the discussion and analysis set forth in this section in conjunction with our combined financial information for the years ended 31 March 2010, 2011 and 2012, and in each case, together with the accompanying notes set forth in Appendix I — Accountants' Report, and our summary historical combined financial information and operating data included elsewhere in this Prospectus. Our combined financial information was prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and our financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we have no control. See "Risk Factors" and "Forward-Looking Statements".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are the second largest operator of pachinko halls 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 built our pachinko operations over the past 45 years from two halls in one prefecture to 355 halls in 46 prefectures as at 31 March 2012. Given our sizable operations, we believe we are able to achieve economies of scale in our business activities. We have centralised our management, marketing and advertising, and machine and general prize procurement processes to enhance operational and cost efficiencies throughout our operations. Furthermore, our nationwide network has enabled us to transfer machines amongst our pachinko halls in different locations in order to maximise the utilisation of our existing machines and better manage our machine costs, as acquisition of machines forms a significant part of our operating costs.

Our focus has been on promoting the entertainment, instead of gaming, aspect of pachinko. Apart from operating traditional halls, we introduced our *Yuttari Kan* and *Shinrai no Mori* brands in 2007 and 2009, respectively, which include features such as low playing cost pachinko and pachislot machines and, in our *Shinrai no Mori* halls, separate smoking and non-smoking areas and the addition of a "relaxation space" in which customers can socialise. In view of an overall declining trend in the pachinko industry in the recent years, we have been active in 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 instead of merely for prizes. We have seen continuous growth in the amount of hall spending by customers in our *Yuttari Kan* and *Shinrai no Mori* halls, as evidenced by the increases in gross pay-ins for these halls for the year ended 31 March 2012 compared with the prior year.

Despite the challenging economic prospects in Japan, we will continue to execute our expansion strategy through building new halls in carefully selected locations as well as strategic acquisitions of smaller scale operators. We also intend to focus on continuing to achieve greater operational efficiency, with the assistance of our comprehensive IT system and through cost controls, in order to maintain our Group's profitability.

As at 31 March 2012, we operated 176 traditional halls, 135 *Yuttari Kan* halls, and 44 *Shinrai no Mori* halls. For the years ended 31 March 2010, 2011 and 2012, our revenue was ¥165,461 million, ¥169,637 million and ¥165,078 million (equivalent to approximately HK$15,515 million), respectively.

The following table sets forth the number and percentage of our traditional, *Yuttari Kan* and *Shinrai no Mori* halls as at the dates indicated:

	As at 31 March					
	2010		2011		2012	
		%		%		%
Traditional	176	*53.2*	176	*50.3*	176	*49.6*
Yuttari Kan	130	*39.3*	132	*37.7*	135	*38.0*
Shinrai no Mori	25	*7.5*	42	*12.0*	44	*12.4*
	331	*100.0*	350	*100.0*	355	*100.0*

Financial Metrics for Our Business

The following are the primary financial metrics key to an understanding of our results of operations:

- **gross pay-ins**, which is the amount received from pachinko balls and pachislot tokens rented to customers less unutilised balls and tokens;
- **gross payouts**, which is the aggregate cost of G-prizes and general prizes exchanged at our halls by our customers;
- **revenue**, which is gross pay-ins less gross payouts;
- **jackpot probability**, which is the probability of hitting the jackpot and releasing additional pachinko balls;
- **payout ratio**, which is the total number of pachinko balls or pachislot tokens released from the machine divided by the total number of balls or tokens played;
- **revenue margin**, which is revenue divided by gross pay-ins;
- **G-prize mark-up**, which is the excess of the monetary value of the number of pachinko balls or pachislot tokens required to collect a G-prize over the cost of the G-prize; and
- **machine utilisation**, which is the number of balls/tokens played per day.

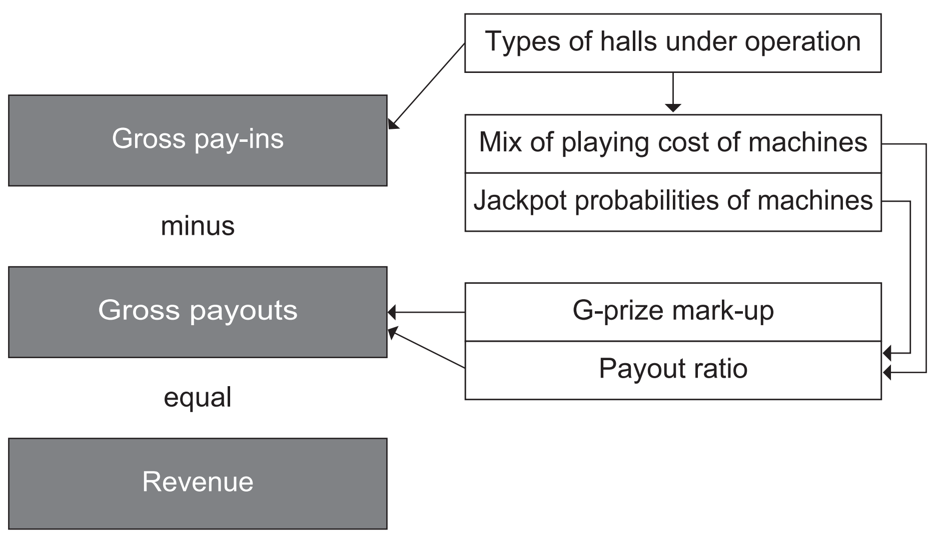
The amount of gross pay-ins is affected by the number of machines and halls in operation and the number and playing time of customers playing the machines. In addition, the amount of gross pay-ins is affected by the types and proportions of machines in the halls and the types of halls. For example, a 1-yen pachinko machine generally generates less gross pay-ins than a 4-yen pachinko machine, assuming other factors are equal and the same playing time.

In turn, because gross payouts is to a large extent determined by payout ratios and G-prize mark-ups, revenue is substantially affected by payout ratio and G-prize mark-ups. The average payout ratio of a hall is affected by the mix of machines with various specifications, which include playing cost (i.e. 1 to 4 yen per ball for pachinko and 5 to 20 yen per token for pachislot), jackpot probability (i.e. 1/100, 1/200, 1/300 and 1/400) and number of balls or tokens won from hitting a jackpot.

As stated above, jackpot probability is the probability, once a player has entered the jackpot mode, of hitting the jackpot and receiving additional pachinko balls. Generally, the jackpot probability is expressed as a fraction, such as 1/100 or 1/400, and the higher the probability of winning a jackpot, the fewer the number of balls or tokens that can be won per jackpot win. The probability of winning a jackpot once a player enters the jackpot mode is part of the built-in program of the pachinko machine and cannot be adjusted by the pachinko operator. However, a pachinko operator is able to acquire pachinko machines with different pre-set jackpot probabilities. As a result, the mix of machines with different jackpot probabilities will also affect our revenue and revenue margin. In general, higher jackpot probabilities result in higher revenue margins as players are able to play machines longer with the same amount of balls or tokens, which increases the machine utilisation and aggregate amount of balls we, as an operator, retain.

Moreover, a low playing cost machine has a higher revenue margin than a high playing cost machine as (i) a low playing cost machine has a lower payout ratio; (ii) pachinko players can spend a longer time at low playing cost machines with similar gross pay-ins than high playing cost machines, leading to a higher machine utilisation; and (iii) we utilise higher G-prize mark-ups for our low playing cost machines.

The following chart illustrates the primary items, as discussed above, that affect gross pay-ins, gross payouts and revenue.



Factors Affecting Results of Operations

The major factors affecting our financial condition and results of operations are set out below.

Proportion of low playing cost machines in our pachinko halls

Because of the stagnation of the Japanese economy and the corresponding decline in the number of and spending by traditional pachinko players, we believe it is critical to broaden our customer base in order to increase overall customer spending in our pachinko halls. As a result, we may occasionally adjust the mix of high playing cost and low playing cost machines among our halls, particularly when opening new halls, in order to maintain customer interest as well as to grow our customer base. We also intend to continue to increase the number of our pachinko halls, with a particular focus on increasing the relative proportions of our *Yuttari Kan* and *Shinrai no Mori* halls, as the low playing cost machines featured in these hall types help to attract a broader customer base.

We also generally realise higher utilisation rates as well as higher revenue margins, despite lower gross pay-ins, with low playing cost machines due to higher G-prize markups and lower payout ratios associated with these machines as compared to high playing cost machines. Therefore, changes in the proportion of low playing cost machines can impact our results of operations. During the Track Record Period, the percentage of low playing cost machines increased from approximately 52.6% as at 31 March 2010 to approximately 55.5% as at 31 March 2012.

Operational efficiency and cost controls

Hall operating expenses, particularly hall staff costs and pachinko and pachislot machine expenses, form a significant part of our expenses. Through our chain-store operational and management structure, we seek to achieve greater operational efficiency and cost controls 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 Japan. One example of cost control measures is our initiative to begin developing and installing our own private brand machines, the production of which we outsource in bulk to manufacturers for cost savings over 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. Other examples of operational efficiency and cost control measures include our 13 centralised distribution centres to support our machine sourcing functions, redeploying machines within our network and reconfiguring high playing cost machines into low playing cost machines, to reduce our machine expenses, and implementing an inventory ordering system for our general prizes to minimise our spending on working capital. With our chain store operational and management practices, rigorous cost control measures and greater economies of scale in our operations, we aim to continue to lower our per unit hall operating expenses.

The opening of new pachinko halls

Our results of operations are significantly affected by the opening of additional pachinko halls. We intend to build approximately 75 additional pachinko halls over the next three years, primarily *Yuttari Kan* halls but also traditional halls and *Shinrai no Mori* halls. Opening a new hall requires substantial initial capital expenditures for hall construction and for furnishing the hall with necessary equipment and supplies, including pachinko and pachislot machines. Furthermore, it takes time to build up customer traffic and spending, and hence gross pay-ins, in a newly established hall and additional working capital is required to fund the operation before it achieves positive operating cash flows. As a result, controlling costs and finding suitable locations for our new pachinko halls are critical to the success of our expansion strategy. Historically, we have identified suitable locations for and opened new pachinko halls which we then operated under our cost control measures. However, the demographics, levels of disposable income of pachinko customers and the competitive landscape in a particular location for a pachinko hall are subject to change, and are factors beyond our control after the hall is constructed and opened. As a result, our results of operations will be affected by our ability to achieve success in opening new halls, finding suitable locations, building up customer traffic and customer hall spending, and controlling costs.

Pachinko and pachislot machine procurement policy

Pachinko and pachislot machine expenses form a significant part of our expenses. As a result, our expenses will be higher in periods when we purchase more new machines for our halls, which we do to respond to competitive pressures and to attract customers to our halls, and lower in periods when we purchase less new machines. We also use second-hand machines in our halls, sourced from our operations and third party suppliers, and reconfigure high playing cost machines into low playing cost machines, which allows us to control our machine expenses. Our traditional pachinko halls generally have higher machine expenses per hall than our *Yuttari Kan* and *Shinrai no Mori* halls, reflecting a larger volume of new machine purchases made to attract and retain the frequent players who visit our traditional halls. We primarily purchase new machines for use as high playing cost machines in our traditional pachinko halls, and generally use more second hand machines in our *Yuttari Kan* and *Shinrai no Mori* halls. The second hand machines include high playing cost machines transferred from our traditional halls that are converted to low playing cost machines as well as those from outside sources.

The Japanese economy

We conduct all of our operations in Japan and in each of the fiscal years ended 31 March 2010, 2011 and 2012 derived all of our revenues from the domestic Japanese market. Recent macroeconomic conditions in Japan, as well as significant events such as the global financial crisis in 2008, the debt crisis in Europe and the Great East Japan Earthquake that occurred on 11 March 2011 have, among others, led to a reduction in overall demand by consumers in Japan, and may continue to harm consumer confidence and spending in the leisure market, including the pachinko industry. These conditions have impacted our pachinko operations, including the level of demand for pachinko and pachislot by customers, the availability and prices of pachinko and pachislot machines and other supplies, and the level of our other operating expenses. We have taken a variety of measures in response to these conditions, such as our focus on promoting the entertainment, instead of gaming, aspect of pachinko, through our *Yuttari Kan* and *Shinrai no Mori* pachinko halls. We introduced these hall types in 2007 and 2009, respectively, and they offer, among others, primarily low playing cost pachinko and pachislot games with a wider variety of general prizes. Our development of low playing cost pachinko has allowed us to reach a broader and previously untapped customer base. However, if Japan fails to achieve sustained economic growth in the future, our results of operations may be adversely affected.

Policies and regulations relating to the pachinko industry

Policies and regulations implemented by the Japanese government relating to our industry may significantly affect customer demand and behaviour as well as the various operating metrics that impact our results of operations. For example, a regulation was adopted in 2004 with the aim of de-emphasising the gambling nature of pachislot. The 2004 regulation set a cap on the potential payout value of bonus rounds that could be accumulated. After the end of the phase-in period in 2007, there was a sharp drop in the popularity of pachislot, which adversely impacted the operating results of pachinko operators across the industry, including us. Future regulatory changes may similarly impact our operating results.

Income tax reform

Our income tax expenses were ¥13,086 million, ¥12,285 million and ¥12,506 million (equivalent to approximately HK$1,175 million) for the years ended 31 March 2010, 2011 and 2012, respectively, representing approximately 39.3%, 43.1% and 44.0% of profits before tax for their respective periods. The effective corporate tax rate for our subsidiaries during the Track Record Period ranged from 40.1% to 42.1%. Any changes in the effective corporate tax rate would have a significant impact to our profit for the year.

Under the Tax Reform 2011 announced by The Ministry of Finance of Japan in December 2011, the corporate income tax rate will be cut by 1.95% from 30% to 28.05% for the fiscal years beginning on or after 1 April 2012 to 2014, and further reduced by 2.55% from 28.05% to 25.5% for the fiscal years beginning on or after 1 April 2015. As such, it is expected that our effective corporate tax rate, including the corporate income tax, resident tax and business tax, will be reduced to 38.0% for the fiscal years beginning on or after 1 April 2012 to 2014, and further reduced to 35.6% for the fiscal years beginning on or after 1 April 2015. Please see Note 11 to the Accountants' Report in Appendix I for more information.

Competition

The pachinko industry in Japan is highly fragmented and is characterised by a large number of smaller operators and a small number of large operators. Although there were over 4,000 pachinko hall operators in Japan, as of 2010, only 46 operators had over 20 halls each. Among these 46 larger scale operators, only three, including us, manage over 100 halls and are considered nationwide operators. According to Yano Research, aggregate customer hall spending recorded in 2010 by the top five and top ten hall operators accounted for approximately 20% and 25%, respectively, of the entire market. As a result, our major competitors are large pachinko operators, although we also compete with any pachinko operator in close geographic proximity to our pachinko halls. However, large nationwide pachinko operators, such as ourselves, enjoy cost advantages over small local operators, due to greater economies of scale.

According to Yano Research, during 2010, the number of small scale operators with less than 20 pachinko halls each decreased by 198. On the other hand, the number of operators with over 20 halls each has increased from 42 to 46 during the same period. This reflects the trend of fewer smaller scale operators, with the large scale operators becoming even larger as they leverage their economies of scale. With our advantages in terms of operational history and economies of scale, we believe the present competitive landscape in the pachinko industry will provide us with attractive opportunities to extend the geographic range of our operations and grow our results of operations.

Effect of Great East Japan Earthquake of 11 March 2011

On 11 March 2011, the magnitude 9.0 Great East Japan Earthquake occurred off the eastern coast of Japan and was followed shortly thereafter by a large tsunami that struck a vast swath of Japan's Pacific coast. In the immediate aftermath of the earthquake and tsunami, there was a significant short-term negative impact on the economy. In addition to the initial damage caused by the earthquake and tsunami, the damage to the nuclear power facilities in Fukushima Prefecture resulted in electricity shortages and related rolling blackouts through much of the Tohoku and Kanto regions, which include Tokyo.

As a result of the earthquake and ensuing events, we had to suspend operations at approximately 100 of our pachinko halls due to external and internal damage. Since the earthquake, we have nearly completed restoration and repair work at affected pachinko halls, and as at 7 October 2011, all of our pachinko halls were re-opened. During 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, which reflected losses for impairment of property, plant and equipment, machine replacement costs, and repairs. The losses due to the Great East Japan Earthquake were recognised when they were actually incurred during the relevant periods.

See "Risk Factors — Our business may be adversely affected by the continuing effects of the Great East Japan Earthquake and ensuing events" for more information. Though we resumed operation of all of our halls affected by the earthquake by 7 October 2011, a total of 150 of our halls in the areas covered by Tokyo Electric Power Company, Inc. and Tohoku Electric Power Co., Ltd. were required to close a certain number of days per month, in rotation, as part of energy conservation measures between 1 July and 30 September 2011.

Description of Components of Results of Operations

Gross pay-ins

Our gross pay-ins represent amounts received from pachinko balls and pachislot tokens rented to customers in our halls less unutilised balls and tokens during the period. Unutilised balls and tokens represent the sum of (i) the value of balls and tokens stored in our membership system and (ii) unutilised value of pre-paid IC cards sold. See "Business — Marketing — Membership system" for information on carrying over balls and tokens, and "Business — Pachinko Operations — The gaming experience" for information on pre-paid IC cards. Our gross pay-ins were ¥862,023 million, ¥859,882 million and ¥908,309 million (equivalent to approximately HK$85,368 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

The following table sets forth a breakdown of the aggregate gross pay-ins by type of hall for the periods indicated.

	Year ended 31 March						
	2010		2011		2012		
	(in millions, except for percentages)						
	¥	*%*	*¥*	*%*	*¥*	*HK$*	*%*
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
	862,023	100.0	859,882	100.0	908,309	85,368	100.0

The following table sets forth a breakdown of the average gross pay-ins per hall by type of hall for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	*¥*	*¥*	*HK$*
	(in millions)			
Traditional	4,315.2	4,053.7	4,171.8	392.1
Yuttari Kan	725.5	881.0	988.9	92.9
Shinrai no Mori	329.0	717.7	922.0	86.7

The following table sets forth the movements of our unutilised balls and tokens during the Track Record Period:

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Balance at the beginning of the year	3,038	3,792	4,173	392
Less: forfeiture of unutilised balls and tokens				
— pre-paid IC cards	(269)	(269)	(275)	(26)
— membership cards	(42)	(46)	(57)	(5)
Add: unutilised balls and tokens from prepaid IC cards and membership cards	1,065	696	357	34
Balance at the end of the year	3,792	4,173	4,198	395

Because we allow our customers to use the remaining cash value on their pre-paid IC cards to exchange for pachinko balls or pachislot tokens once within a 20-day period after they purchase the pre-paid IC card, all cash stored on pre-paid IC cards is accounted for under current liabilities during the 20-day period, and unused cash (representing the value of unutilised balls and tokens) stored on pre-paid IC cards is subsequently recognised as income from expiry of pre-paid IC cards upon forfeiture 20 days after purchase of the pre-paid IC card. As at 31 March 2010, 2011 and 2012, cash received by us from pre-paid IC cards represented approximately 2.1%, 2.2% and 2.2%, respectively, of the value of total unutilised balls and tokens.

The following table sets forth the mix of pachinko machines by playing cost for each hall type as at the dates indicated.

	As at 31 March					
Hall type/playing cost	**2010**		**2011**		**2012**	
	(number of machines, except for percentages)					
		%		%		%
Traditional						
Low playing cost[(1)]	10,701	16.7	13,239	21.1	14,135	22.7
High playing cost[(2)]	53,363	83.3	49,497	78.9	48,121	77.3
	64,064	100.0	62,736	100.0	62,256	100.0
Yuttari Kan						
Low playing cost[(1)]	40,547	100.0	40,876	98.7	42,215	99.8
High playing cost[(2)]	—	—	548	1.3	80	0.2
	40,547	100.0	41,424	100.0	42,295	100.0
Shinrai no Mori						
Low playing cost[(1)]	8,016	100.0	12,965	97.2	13,645	99.1
High playing cost[(2)]	—	—	368	2.8	128	0.9
	8,016	100.0	13,333	100.0	13,773	100.0
Total	112,627		117,493		118,324	

(1) Comprises pachinko machines with playing costs of 0.5-yen, 1-yen, 1.25-yen, 2-yen and 2.5-yen.
(2) Comprises pachinko machines with playing costs of 4-yen.

The following table sets forth the mix of pachislot machines by playing cost for each hall type as at the dates indicated.

Hall type/playing cost	As at 31 March					
	2010		2011		2012	
	(number of machines, except for percentages)					
		%		%		%
Traditional						
Low playing cost[1]	218	1.1	538	2.5	498	2.3
High playing cost[2]	20,036	98.9	21,092	97.5	21,612	97.7
	20,254	100.0	21,630	100.0	22,110	100.0
Yuttari Kan						
Low playing cost[1]	10,496	100.0	11,568	100.0	12,952	100.0
High playing cost[2]	—	—	—	—	—	—
	10,496	100.0	11,568	100.0	12,952	100.0
Shinrai no Mori						
Low playing cost[1]	1,920	100.0	3,400	98.8	3,800	100.0
High playing cost[2]	—	—	40	1.2	—	—
	1,920	100.0	3,440	100.0	3,800	100.0
Total	32,670		36,638		38,862	

(1) Comprises pachislot machines with playing costs of 5-yen, 6.25-yen and 10-yen.
(2) Comprises pachislot machines with playing costs of 20-yen.

During the Track Record Period, our traditional halls contributed over 80% of our total gross pay-ins. During the Track Record Period, over 75% of the pachinko machines in traditional halls were high playing cost 4-yen pachinko games and over 90% of the pachislot machines provided in traditional halls were high playing cost 20-yen pachislot games. For the same periods, in our *Yuttari Kan* halls and *Shinrai no Mori* halls, over 90% of the pachinko and pachislot machines were low playing cost games, which are 0.5-yen to 2.5-yen pachinko games and 5-yen to 10-yen pachislot games.

The following table sets forth the average number of pachinko machines per hall by playing cost for each hall type for the periods indicated.

Pachinko machines	Year ended 31 March		
	2010	2011	2012
	(number of machines)		
Traditional			
Low playing cost	61	75	80
High playing cost	303	281	274
Yuttari Kan			
Low playing cost	312	310	312
High playing cost	—	4	1
Shinrai no Mori			
Low playing cost	321	309	310
High playing cost	—	9	3

The following table sets forth the average number of pachislot machines per hall by playing cost for each hall type for the periods indicated.

	Year ended 31 March		
Pachislot machines	**2010**	**2011**	**2012**
	(number of machines)		
Traditional			
Low playing cost	1	3	3
High playing cost	114	120	123
Yuttari Kan			
Low playing cost	81	88	96
High playing cost	—	—	—
Shinrai no Mori			
Low playing cost	77	81	86
High playing cost	—	1	—

The following table below sets forth the utilisation rate for low and high playing cost pachinko and pachislot machine in our halls for the periods indicated.

	Year ended 31 March		
Pachinko machines(1)	**2010**	**2011**	**2012**
Low playing cost	35.1%	35.2%	35.3%
High playing cost	31.4%	27.8%	28.0%

	Year ended 31 March		
Pachislot machines(2)	**2010**	**2011**	**2012**
Low playing cost	27.0%	30.8%	31.9%
High playing cost	26.0%	29.0%	30.2%

(1) The pachinko machine utilisation rate was calculated by dividing the average number of balls put into play per day by the maximum number of balls available to be played per day. The maximum number of balls available to be played per day is defined as the maximum number of balls that can be put into play per hour (i.e. 6,000 balls) multiplied by the number of operating hours (i.e. 13.5 hours) per day.

(2) The pachislot machine utilisation rate was calculated by dividing the average number of tokens put into play per day by the maximum number of tokens available to be played per day. The maximum number of tokens available to be played per day is defined as the maximum number of tokens that can be put into play per hour (i.e. 2,634 tokens) multiplied by the number of operating hours (i.e. 13.5 hours) per day.

Gross payouts

Gross payouts, which represents the aggregate cost of G-prizes and general prizes exchanged at our halls by our customers, amounted to ¥696,562 million, ¥690,245 million and ¥743,231 million (equivalent to approximately HK$69,853 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

The following table sets forth the breakdown of our gross payouts by type of hall for the periods indicated.

	Year ended 31 March			
	2010	**2011**	**2012**	
	¥	**¥**	**¥**	***HK$***
	(in millions)			
Traditional	637,641	595,270	623,331	58,584
Yuttari Kan	53,125	73,917	90,574	8,513
Shinrai no Mori	5,796	21,058	29,326	2,756
	696,562	690,245	743,231	69,853

The following table sets forth a breakdown of the average gross payouts per hall by type of hall for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Traditional	3,623.0	3,382.2	3,541.7	332.9
Yuttari Kan	408.7	560.0	670.9	63.1
Shinrai no Mori	231.8	501.4	666.5	62.6

Our gross payouts of G-prizes and general prizes to customers in any given period is to a large extent determined by payout ratios and G-prize mark-ups. The payout ratio in our traditional, *Yuttari Kan* and *Shinrai no Mori* halls is affected by the mix of low playing cost machines and high playing cost machines as well as the different specifications of machines installed in the pachinko halls, such as specifications on the jackpot probability. See "Business — Pachinko Operations — Game performance". In addition, different halls apply different G-prize mark-ups for machines of different playing costs when exchanging G-prizes with customers. Generally, the payout ratios are higher, and the G-prize mark-ups are lower — or more favourable for customers — for high playing cost machines featured in our traditional halls, and payout ratios are lower, and the G-prize mark-ups are higher — or less favourable for customers — for low playing cost machines featured in our *Yuttari Kan* and *Shinrai no Mori* halls. We decide on the mix of machines in each hall according to local preferences based on results of our surveys.

Revenue

Our revenue represents the gross pay-ins, less gross payouts to customers. Our revenue was ¥165,461 million, ¥169,637 million and ¥165,078 million (equivalent to approximately HK$15,515 million) during the years ended 31 March 2010, 2011 and 2012, respectively.

The following table sets forth a breakdown of our revenue by type of hall for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Traditional	121,840	118,174	110,914	10,424
Yuttari Kan	41,193	42,378	42,922	4,034
Shinrai no Mori	2,428	9,085	11,242	1,057
	165,461	169,637	165,078	15,515

Revenue margin

Revenue margin represents revenue divided by gross pay-ins. Our revenue margins are primarily affected by payout ratios, G-prize mark-ups and mix of the pachinko and pachislot machines in our halls. The following table sets forth a breakdown of revenue margin by type of hall for the periods indicated.

	Year ended 31 March		
	2010	**2011**	**2012**
Traditional	16.0%	16.6%	15.1%
Yuttari Kan	43.7%	36.4%	32.2%
Shinrai no Mori	29.5%	30.1%	27.7%

Our *Yuttari Kan* and *Shinrai no Mori* halls had higher revenue margins than our traditional halls, mainly because of lower payout ratios and higher G-prize mark-ups generally utilised in those halls for their low playing cost machines.

Other income

Other income primarily comprises commission income from vending machines and in-store sales, which represented 53.5%, 57.8% and 63.3% of total other income for the years ended 31 March 2010, 2011 and 2012, respectively, and rental income, which represented 12.1%, 12.6% and 12.9% of total other income for the years ended 31 March 2010, 2011 and 2012, respectively. These items represent recurring income in our operations. The following table sets forth a breakdown of our other income for the periods indicated.

	Year ended 31 March			
	2010	**2011**	**2012**	
	¥	***¥***	***¥***	***HK$***
		(in millions)		
Commission income from vending machines and in-store sales (1)	3,690	4,024	4,163	391
Rental income (2)	832	877	845	79
Gain on disposals of used-machine (3)	462	635	453	43
Income from forfeiture of unutilised balls and tokens (4)	311	315	332	31
Reversal of impairment losses on property, plant and equipment (5)	—	352	—	—
Dividend income (6)	220	231	127	12
Interest income on loan to related companies	35	72	46	4
Bank interest income (7)	2	2	1	^
Gain on bargain purchase (8)	766	—	—	—
Fair value gain on financial assets at fair value through profit or loss	16	—	—	—
Others	564	454	605	57
	6,898	6,962	6,572	617

^ Less than HK$0.5 million.

(1) Commission income from vending machines and in-store sales represents the monthly rental fee paid by the vending machine operators, which set up vending machines in our pachinko halls. Commission income ranges from ¥6,000 to ¥15,000 per machine. We also receive approximately 15.0% to 60.0% of the gross proceeds from these vending machines and in-store sales of food by a related company, Humap.

(2) Rental income represents the income received from leasing of investment properties.

(3) Gain on disposals of used-machines represents the disposal gains upon selling of used pachinko and pachislot machines to second hand dealers and the vendors of the machines.
(4) Income from forfeiture of unutilised balls and tokens represents the income of forfeiture of the balls and money stored in the membership cards and pre-paid IC cards after the expiry date.
(5) Reversal of impairment losses on property, plant and equipment represents the reversal of the impairment losses provided in prior years after we carried out annual impairment assessment of our property, plant and equipment.
(6) Dividend income represents dividends received from the investee companies in which we held their shares as available-for-sale investments.
(7) Bank interest income represents interest earned on bank deposits.
(8) Gain on bargain purchase represents the discount on acquisition of Cabin Plaza and Daikokuten on 1 April 2009 and 1 December 2009, respectively.

Hall operating expenses

Our hall operating expenses include (i) hall staff costs; (ii) pachinko and pachislot machine expenses; (iii) depreciation charges; (iv) rental; (v) advertising expenses; (vi) utilities expenses; (vii) G-prize expenses; (viii) cleaning and ancillary services; (ix) repair and maintenance expenses; and (x) others.

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

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Hall staff costs[1]	43,094	45,944	46,297	4,351
Pachinko and pachislot machine expenses[2]	35,693	41,290	35,739	3,359
Depreciation charges[3]	11,399	11,453	10,788	1,014
Rental[4]	9,583	10,043	10,166	955
Advertising expenses[5]	6,343	7,666	6,265	589
Utilities expenses[6]	4,595	4,901	4,716	442
G-prize expenses[7]	4,283	4,593	4,831	454
Cleaning and ancillary services[8]	4,612	4,228	4,273	402
Repair and maintenance[9]	3,136	2,967	3,889	365
Others[10]	12,049	11,154	11,821	1,112
	134,787	144,239	138,785	13,043

(1) Hall staff costs represent the salaries, allowances and bonuses paid to the staff working in the pachinko halls as well as personnel at Dynam Advertisement and P Trading.
(2) Pachinko and pachislot machine expenses represent the expenditures incurred in acquiring brand new and second hand pachinko and pachislot machines, which include machines costs, transportation costs and documentation costs. Under our capitalisation policy, pachinko and pachislot machines with useful lives of more than one year are capitalised as property, plant and equipment in our financial statements. However, our pachinko and pachislot machine expenses are generally not capitalised as property, plant and equipment in our financial statements because the average useful lives of the pachinko and pachislot machines are typically less than one year. During the Track Record Period, the average useful life of our machines was 0.84 year, 0.82 year and 0.94 year, respectively. As a result, pachinko and pachislot machine expenses are fully recognised in the income statement at the time of use.
(3) Depreciation charges represent the depreciation charges of our buildings including leasehold improvements, tools and equipment and motor vehicles. The depreciation charges are calculated on a declining balance basis for tools and equipment and motor vehicles and straight-line basis for our buildings including leasehold improvements over their estimated useful lives.
(4) Rental expenses represent the expenses paid for renting the land and buildings for our pachinko operations.
(5) Advertising expenses represent expenditures incurred in connection with our advertising and marketing campaigns.
(6) Utilities expenses represent payments for utilities supplied to our pachinko halls.
(7) G-prize expenses represent the fixed monthly fees paid to G-prize wholesalers.

(8) Cleaning and ancillary services represent the pachinko hall cleaning fees paid to related companies, Humap and Business Partners and external third party service providers. The cleaning fees are comparable to prevailing market rates.

(9) Repair and maintenance expenses represent expenditures incurred for repair and maintenance of our pachinko halls.

(10) Others represent tax on fixed assets, stamp duty, prepaid card expenses and bank charges.

General and administrative expenses

Our general and administrative expenses include (i) staff costs; (ii) rental expenses; (iii) depreciation charges; (iv) cleaning expenses; and (v) others. The following table sets forth a breakdown of our general and administrative expenses for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Staff costs	265	380	951	89
Rental expenses	31	56	83	8
Depreciation charges	1	9	15	1
Cleaning and ancillary services	22	20	24	2
Others	323	469	681	64
	642	934	1,754	164

Our cleaning expenses relate to cleaning fees paid to a related company, Business Partners, in connection with the provision of cleaning services to our headquarters. See “Connected Transactions — Continuing Connected Transactions Subject to Reporting and Announcement Requirements — Office Cleaning and Ancillary Services”. Depreciation charges relate to depreciation of tools and equipment and motor vehicles used in our headquarters. Staff costs relate to salaries, allowances and bonuses paid to administrative staff. Rental expenses relate to the rental expenses paid for leasing of our headquarters. Others mainly relate to communication expenses and office supply expenses.

Other operating expenses

The following table sets forth a breakdown of our other operating expenses for the periods indicated.

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Loss on disposal of property, plant and equipment [(1)]	207	241	230	22
Impairment loss on property, plant and equipment	421	—	226	21
Impairment loss on available-for-sale investment [(2)]	9	9	1	^
Intangible assets written off [(3)]	3	—	94	9
Expenses on investment properties [(4)]	176	131	121	11
Expenses for closed halls [(5)]	11	—	—	—
Fair value loss on convertible bonds [(6)]	—	99	—	—
Net loss on derivative financial instruments [(7)]	214	201	12	1
Rental deposits written off [(8)]	—	—	58	5
Impairment loss on rental deposits	59	46	—	—
Fair value change in investment properties	23	17	21	2
Donation	—	50	—	—
Syndicated loan cancellation fee [(9)]	—	—	44	4
Others	65	19	67	6
	1,188	813	874	81

^ Less than HK$0.5 million.

(1) Loss on disposal of property, plant and equipment represents the disposal loss on building including leasehold improvements, tools and equipment and motor vehicles.

(2) Impairment loss on available-for-sale investment represents the impairment loss arising from the valuation of the available-for-sale investment in Japanese companies.

(3) Intangible assets written off represent the disposal of sales management system, analysis system and gift management system.

(4) Expenses on investment properties represent the electricity paid, land related tax, facility leasing expenses and repair costs incurred in connection with our investment properties.

(5) Expenses for closed halls represent utilities, staff costs and other miscellaneous expenses paid in connection with underperforming pachinko halls that were temporarily closed during the relevant period.

(6) Fair value loss on convertible bonds represents the valuation loss on our convertible bond investment.

(7) Net loss on derivative financial instruments represents the mark to market fair value and loss on settlement of our interest rate swap contracts.

(8) Rental deposits written off represent rental deposits paid to a landlord which have been proven to be irrecoverable.

(9) Syndicated loan cancellation fee represents the handling charge paid for the early settlement of the syndicated loan.

Finance costs

Finance costs primarily include interest expenses on borrowings from related companies, interest expenses on debt securities, finance lease charges, interest on bank loans and syndicated loans and amortisation of bank charges incurred on our syndicated loans. Our finance costs were ¥2,442 million, ¥2,137 million and ¥1,833 million (equivalent to approximately HK$172 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

Income tax expenses

Our income tax expenses primarily include taxes that we pay in Japan and deferred taxation amounts. Deferred tax is recognised on differences between the carrying amounts of assets and liabilities recorded in our financial statements and the corresponding tax bases used in the computation of taxable profit. In Japan, our income tax expenses reflect Japan profit tax rate of approximately 40%, comprising corporate income tax, corporate inhabitant income tax, deductible business tax and additional tax applicable to a Specified Family Company. Our income tax expenses were ¥13,086 million, ¥12,285 million and ¥12,506 million (equivalent to approximately HK$1,175 million) for the years ended 31 March 2010, 2011 and 2012, respectively. Our effective tax rates were 39.3%, 43.1% and 44.0% for the years ended 31 March 2010, 2011 and 2012, respectively. Please see Note 11 to the Accountants' Report set forth in Appendix I for more information.

Basis of presentation

The Company was incorporated under the law of Japan on 20 September 2011. Our principal activity is to act as a holding company of our subsidiaries.

In connection with the initial listing of the Shares of our Company on the Main Board of the Stock Exchange, a group reorganisation was carried out, as further detailed under "History, Development and Reorganisation" in this Prospectus. The Reorganisation effectively involved the acquisition from DYH of the entire equity interest in each of our subsidiaries, being Dynam, Cabin Plaza, Daikokuten, Okuwa Japan, Dynam Land, Dynam Data, P Trading, Dynam Advertisement, Kanto Daido, Shinrainomori and Shinrainomori Association.

The financial information is prepared as if the current group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation or establishment or effective date of acquisition where this is a shorter period.

Critical Accounting Policies

The preparation of our combined financial statements and related notes requires our management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities in our financial statements. These judgments, estimates and assumptions are based on factors, including historical experience, terms of existing contracts, industry trends, information provided by our suppliers and customers and information available from outside sources as we believe to be appropriate and reasonable. However, by their nature, such judgments, estimates and assumptions are subject to an inherent degree of uncertainty, and therefore actual results could differ materially from our estimates. We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations. We also have other policies that we consider to be key accounting policies, which are set forth in detail in Notes 4 and 5 to the Accountants' Report in Appendix I to this Prospectus.

Gross pay-ins and gross payouts

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

Pachinko and pachislot machine expenses

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. We determine the estimated useful lives, residual values and related depreciation charges for our property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. We will revise the depreciation charges where useful lives and residual values are different from those previously estimated, or we write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Changes in these estimates may have a material impact on our results of operations, and are recognised in our income statement in the year in which such changes occur.

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

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

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

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

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

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

We assess annually whether property, plant and equipment has any indication of impairment in accordance with our accounting policy. The recoverable amount of property, plant and equipment has been determined based on a value-in-use calculation. This calculation requires the use of judgement and estimates.

Review of Historical Results of Operations

The following table sets forth certain information relating to our results of operations:

	Year ended 31 March						
	2010		2011		2012		
	(in millions, except for percentages)						
	¥	%	¥	%	¥	HK$	%
Gross pay-ins	862,023	100.0	859,882	100.0	908,309	85,368	100.0
Less: gross payouts	(696,562)	(80.8)	(690,245)	(80.3)	(743,231)	(69,853)	(81.8)
Revenue	165,461	19.2	169,637	19.7	165,078	15,515	18.2
Other income	6,898	0.8	6,962	0.8	6,572	617	0.7
Hall operating expenses	(134,787)	(15.6)	(144,239)	(16.8)	(138,785)	(13,043)	(15.3)
General and administrative expenses	(642)	(0.1)	(934)	(0.1)	(1,754)	(164)	(0.2)
Other operating expenses	(1,188)	(0.1)	(813)	(0.1)	(874)	(81)	(0.1)
Profit from operations	35,742	4.1	30,613	3.6	30,237	2,844	3.3
Finance costs	(2,442)	(0.3)	(2,137)	(0.2)	(1,833)	(172)	(0.2)
Profit before tax	33,300	3.9	28,476	3.3	28,404	2,672	3.1
Income tax expenses	(13,086)	(1.5)	(12,285)	(1.4)	(12,506)	(1,175)	(1.4)
Profit for the year attributable to owners of the Company	20,214	2.3	16,191	1.9	15,898	1,497	1.8

Discussion of Results of Operations

Year ended 31 March 2012 compared to the year ended 31 March 2011

Gross pay-ins

Our gross pay-ins increased by ¥48,427 million (equivalent to approximately HK$4,551 million), or 5.6%, from ¥859,882 million for the year ended 31 March 2011 to ¥908,309 million (equivalent to approximately HK$85,368 million) for the year ended 31 March 2012.

Traditional halls. Gross pay-ins for traditional halls increased by ¥20,801 million (equivalent to approximately HK$1,955 million), or 2.9%, from ¥713,444 million for the year ended 31 March 2011 to ¥734,245 million (equivalent to approximately HK$69,008 million) for the year ended 31 March 2012. The average gross pay-ins per traditional hall increased by ¥118.1 million (equivalent to approximately HK$11.1 million), or 2.9%, from ¥4,053.7 million for the year ended 31 March 2011 to ¥4,171.8 million (equivalent to approximately HK$392.1 million) for the year ended 31 March 2012. The increase was primarily due to the modest increase in utilisation rates of our high playing cost machines.

Yuttari Kan halls. Gross pay-ins for *Yuttari Kan* halls increased by ¥17,201 million (equivalent to approximately HK$1,617 million), or 14.8%, from ¥116,295 million for the year ended 31 March 2011 to ¥133,496 million (equivalent to approximately HK$12,547 million) for the year ended 31 March 2012. We established three new additional *Yuttari Kan* halls during the year. Average gross pay-ins per hall increased by 12.2%, from ¥881.0 million for the year ended 31 March 2011 to ¥988.9 million (equivalent to approximately HK$92.9 million) for the year ended 31 March 2012, which reflected the increasing popularity in the market of our low playing cost, entertainment oriented strategy.

Shinrai no Mori halls. Gross pay-ins for *Shinrai no Mori* halls increased by ¥10,425 million (equivalent to approximately HK$980 million), or 34.6%, from ¥30,143 million for the year ended 31 March 2011 to ¥40,568 million (equivalent to approximately HK$3,813 million) for the year ended 31 March 2012. Two new *Shinrai no Mori* halls were added during the year. Average gross pay-ins per hall increased by 28.5%, from ¥717.7 million for the year ended 31 March

2011 to ¥922.0 million (equivalent to approximately HK$86.7 million) for the year ended 31 March 2012 which reflected the continuing increase in popularity of halls with a non-smoking environment and low playing cost machines.

Gross payouts

Our gross payouts increased by ¥52,986 million (equivalent to approximately HK$4,980 million), or 7.7%, from ¥690,245 million for the year ended 31 March 2011 to ¥743,231 million (equivalent to approximately HK$69,853 million) for the year ended 31 March 2012 against a 5.6% increase in our gross pay-ins. The increase was primarily due to reduced G-prize mark-ups in our traditional, *Yuttari Kan* and *Shinrai no Mori* halls as part of our strategy to enhance our competitiveness to increase our market share.

Traditional halls. Gross payouts for traditional halls increased by ¥28,061 million (equivalent to approximately HK$2,637 million), or 4.7%, from ¥595,270 million for the year ended 31 March 2011 to ¥623,331 million (equivalent to approximately HK$58,584 million) for the year ended 31 March 2012.

Yuttari Kan halls. Gross payouts for *Yuttari Kan* halls increased by ¥16,657 million (equivalent to approximately HK$1,566 million), or 22.5%, from ¥73,917 million for the year ended 31 March 2011 to ¥90,574 million (equivalent to approximately HK$8,513 million) for the year ended 31 March 2012.

Shinrai no Mori halls. Gross payouts for *Shinrai no Mori* halls increased by ¥8,268 million (equivalent to approximately HK$777 million), or 39.3%, from ¥21,058 million for the year ended 31 March 2011 to ¥29,326 million (equivalent to approximately HK$2,756 million) for the year ended 31 March 2012.

Revenue and revenue margin

Revenue decreased by ¥4,559 million (equivalent to approximately HK$428 million), or 2.7%, from ¥169,637 million for the year ended 31 March 2011 to ¥165,078 million (equivalent to approximately HK$15,515 million) for the year ended 31 March 2012.

Traditional halls. Revenue for traditional halls decreased by ¥7,260 million (equivalent to approximately HK$682 million), or 6.1%, from ¥118,174 million for the year ended 31 March 2011 to ¥110,914 million (equivalent to approximately HK$10,424 million) for the year ended 31 March 2012. The decrease was due primarily to an increase in gross payouts over the period. Revenue margin decreased from 16.6% to 15.1%.

Yuttari Kan halls. Revenue for *Yuttari Kan* halls slightly decreased by ¥544 million (equivalent to approximately HK$51 million), or 1.3%, from ¥42,378 million for the year ended 31 March 2011 to ¥42,922 million (equivalent to approximately HK$4,034 million) for the year ended 31 March 2012. The decrease was primarily due to lower G-prize mark-ups for machines in most of our *Yuttari Kan* halls. Revenue margin decreased from 36.4% to 32.2%.

Shinrai no Mori halls. Revenue for *Shinrai no Mori* halls increased by ¥2,157 million (equivalent to approximately HK$203 million), or 23.7%, from ¥9,085 million for the year ended 31 March 2011 to ¥11,242 million (equivalent to approximately HK$1,057 million) for the year ended 31 March 2012. The increase was due primarily to an increase in overall customer spending during the period, partially offset by lower G-prize mark-ups adopted in our *Shinrai no Mori* halls. Revenue margin for *Shinrai no Mori* halls decreased from 30.1% to 27.7%.

Other income

Other income decreased by ¥390 million (equivalent to approximately HK$36.7 million), or 5.6%, from ¥6,962 million for the year ended 31 March 2011 to ¥6,572 million (equivalent to approximately HK$617 million) for the year ended 31 March 2012. The decrease in other income was primarily due to a decrease in reversal of impairment losses on property, plant and equipment during the year.

Hall operating expenses

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

	Year ended 31 March							
	2011							
	Traditional		*Yuttari Kan*		*Shinrai no Mori*		Total	
	(in millions, except for percentages)							
	¥	%	¥	%	¥	%	¥	%
Hall staff costs	29,899	32.6%	12,616	32.1%	3,429	25.8%	45,944	31.9%
Machine expenses	28,941	31.6%	8,807	22.4%	3,542	26.7%	41,290	28.6%
Depreciation charges	5,090	5.6%	3,939	10.0%	2,424	18.3%	11,453	7.9%
Rental	5,515	6.0%	3,738	9.5%	790	5.9%	10,043	7.0%
Advertising expenses	5,474	6.0%	1,468	3.7%	724	5.5%	7,666	5.3%
Utilities expenses	2,686	2.9%	1,801	4.6%	414	3.1%	4,901	3.4%
G-prize expenses	2,438	2.7%	1,699	4.3%	456	3.4%	4,593	3.2%
Cleaning and ancillary services	2,501	2.7%	1,439	3.7%	288	2.2%	4,228	2.9%
Repair and maintenance	1,816	2.0%	1,014	2.6%	137	1.0%	2,967	2.1%
Others	7,316	7.9%	2,760	7.1%	1,078	8.1%	11,154	7.7%
Total	91,676	100.0%	39,281	100.0%	13,282	100.0%	144,239	100.0%

	Year ended 31 March											
	2012											
	Traditional			*Yuttari Kan*			*Shinrai no Mori*			Total		
	(in millions, except for percentages)											
	¥	HK$	%	¥	HK$	%	¥	HK$	%	¥	HK$	%
Hall staff costs	29,437	2,767	33.2%	13,176	1,238	34.7%	3,684	346	30.2%	46,297	4,351	33.4%
Machine expenses	26,460	2,487	29.9%	7,067	664	18.6%	2,212	208	18.1%	35,739	3,359	25.8%
Depreciation charges	4,818	453	5.4%	3,617	340	9.5%	2,353	221	19.3%	10,788	1,014	7.8%
Rental	5,410	508	6.1%	3,804	358	10.0%	952	89	7.8%	10,166	955	7.3%
Advertising expenses	4,626	435	5.2%	1,224	115	3.2%	415	39	3.4%	6,265	589	4.5%
Utilities expenses	2,505	235	2.8%	1,728	162	4.5%	483	45	4.0%	4,716	442	3.4%
G-prize expenses	2,481	233	2.8%	1,780	167	4.7%	570	54	4.7%	4,831	454	3.5%
Cleaning and ancillary services	2,451	230	2.8%	1,463	138	3.9%	359	34	2.9%	4,273	402	3.1%
Repair and maintenance	2,652	249	3.0%	1,090	102	2.9%	147	14	1.2%	3,889	365	2.8%
Others	7,745	728	8.8%	3,049	287	8.0%	1,027	97	8.4%	11,821	1,112	8.4%
Total	88,585	8,325	100.0%	37,998	3,571	100.0%	12,202	1,147	100.0%	138,785	13,043	100.0%

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

	Year ended 31 March							
	2011							
	Traditional		*Yuttari Kan*		*Shinrai no Mori*		Total	
	(in millions, except for percentages)							
	¥	%	¥	%	¥	%	¥	%
Hall staff costs	169.9	32.6%	95.6	32.1%	81.6	25.8%	131.3	31.9%
Machine expenses	164.4	31.6%	66.7	22.4%	84.3	26.7%	118.0	28.6%
Depreciation charges	28.9	5.6%	29.8	10.0%	57.7	18.3%	32.7	7.9%
Rental	31.3	6.0%	28.3	9.5%	18.8	5.9%	28.7	7.0%
Advertising expenses	31.1	6.0%	11.1	3.7%	17.2	5.5%	21.9	5.3%
Utilities expenses	15.3	2.9%	13.6	4.6%	9.9	3.1%	14.0	3.4%
G-prize expenses	13.9	2.7%	12.9	4.3%	10.9	3.4%	13.1	3.2%
Cleaning and ancillary services	14.3	2.7%	11.0	3.7%	6.9	2.2%	12.1	2.9%
Repair and maintenance	10.3	2.0%	7.7	2.6%	3.3	1.0%	8.5	2.1%
Others	41.5	7.9%	20.9	7.1%	25.7	8.1%	31.8	7.7%
Total	520.9	100.0%	297.6	100.0%	316.3	100.0%	412.1	100.0%

	Year ended 31 March											
	2012											
	Traditional			*Yuttari Kan*			*Shinrai no Mori*			Total		
	(in millions, except for percentages)											
	¥	*HK$*	%	¥	*HK$*	%	¥	*HK$*	%	¥	*HK$*	%
Hall staff costs	167.3	15.7	33.2%	97.6	9.2	34.7%	83.7	7.9	30.2%	130.4	12.3	33.4%
Machine expenses	150.3	14.1	29.9%	52.3	4.9	18.6%	50.3	4.7	18.1%	100.7	9.5	25.8%
Depreciation charges	27.4	2.6	5.4%	26.8	2.5	9.5%	53.5	5.0	19.3%	30.4	2.9	7.8%
Rental	30.7	2.9	6.1%	28.2	2.7	10.0%	21.6	2.0	7.8%	28.6	2.7	7.3%
Advertising expenses	26.3	2.5	5.2%	9.1	0.9	3.2%	9.4	0.9	3.4%	17.6	1.7	4.5%
Utilities expenses	14.2	1.3	2.8%	12.8	1.2	4.5%	11.0	1.0	4.0%	13.3	1.3	3.4%
G-prize expenses	14.1	1.3	2.8%	13.2	1.2	4.7%	13.0	1.2	4.7%	13.6	1.3	3.5%
Cleaning and ancillary services	13.9	1.3	2.8%	10.8	1.0	3.9%	8.2	0.8	2.9%	12.0	1.1	3.1%
Repair and maintenance	15.1	1.4	3.0%	8.1	0.8	2.9%	3.3	0.3	1.2%	11.0	1.0	2.8%
Others	44.0	4.1	8.8%	22.6	2.1	8.0%	23.3	2.2	8.4%	33.3	3.1	8.4%
Total	503.3	47.2	100.0%	281.5	26.5	100.0%	277.3	26.0	100.0%	390.9	36.9	100.0%

Hall operating expenses decreased by ¥5,454 million (equivalent to approximately HK$513 million), or 3.8%, from ¥144,239 million for the year ended 31 March 2011 to ¥138,785 million (equivalent to approximately HK$13,043 million) for the year ended 31 March 2012, despite the fact that we incurred losses of approximately ¥979 million (equivalent to approximately HK$92 million) for impairment of property, plant and equipment, as well as expenses for machine replacements and repairs in relation to the year ended 31 March 2012 and ¥195 million for the prior year as a result of the Great East Japan Earthquake.

Traditional halls. Hall operating expenses decreased by ¥3,091 million (equivalent to approximately HK$291 million), or 3.4%, from ¥91,676 million for the year ended 31 March 2011 to ¥88,585 million (equivalent to approximately HK$8,325 million) for the year ended 31 March 2012. On a per hall basis, average hall operating expenses decreased by approximately 3.4%, mainly due to a 8.6% decrease in pachinko and pachislot machine expenses resulting from a reduction in the number of machines acquired. After the Great East Japan Earthquake, logistics difficulties adversely affected the procurement of parts by machine manufacturers, which also affected the availability of new machines in the market and resulted in a reduction of our purchases of machines.

Yuttari Kan halls. Hall operating expenses decreased by ¥1,283 million (equivalent to approximately HK$121 million), or 3.3%, from ¥39,281 million for the year ended 31 March 2011 to ¥37,998 million (equivalent to approximately HK$3,571 million) for the year ended 31 March

2012. On a per hall basis, average hall operating expenses decreased by approximately 5.4% primarily as a result of lower pachinko and pachislot machines expenses, which decreased from approximately ¥66.7 million per hall to ¥52.3 million (equivalent to approximately HK$4.9 million) per hall. The decrease in pachinko and pachislot machine expenses was mainly attributable to the increasing proportion of second hand machines deployed from our traditional halls, instead of acquiring new or second hand machines from external suppliers.

Shinrai no Mori. Hall operating expenses decreased by ¥1,080 million (equivalent to approximately HK$102 million), or 8.1%, from ¥13,282 million for the year ended 31 March 2011 to ¥12,202 million (equivalent to approximately HK$1,147 million) for the year ended 31 March 2012. On a per hall basis, average hall operating expenses decreased by approximately 12.3%, primarily due to a decrease in pachinko and pachislot machine expenses from ¥84.3 million per hall to ¥50.3 million (equivalent to approximately HK$4.7 million) per hall. The reduction in pachinko and pachislot machine expenses primarily reflected a greater use of second hand machines transferred from our traditional halls.

General and administrative expenses

General and administrative expenses increased by ¥820 million (equivalent to approximately HK$77 million), or 87.8%, from ¥934 million for the year ended 31 March 2011 to ¥1,754 million (equivalent to approximately HK$164 million) for the year ended 31 March 2012, primarily due to a 150.3% increase in staff costs and 45.2% increase in other expenses. Staff costs increased by ¥571 million (equivalent to approximately HK$54 million), from ¥380 million for the year ended 31 March 2011 to ¥951 million (equivalent to approximately HK$89 million) for the year ended 31 March 2012. Such increase arose as a result of an increase in headcount in personnel responsible for hall development and site acquisition in anticipation of the accelerated opening of new halls under our expansion plans. Total headcount of administrative personnel increased from 54 as at 31 March 2011 to 138 as at 31 March 2012. The increase in other expenses reflected an increase in travel and transportation expenses and supplies expenses in connection with the increase in the number of administrative personnel.

Other operating expenses

Other operating expenses increased by ¥61 million (equivalent to approximately HK$5.7 million), or 7.5%, from ¥813 million for the year ended 31 March 2011 to ¥874 million (equivalent to approximately HK$81 million) for the year ended 31 March 2012, primarily due to an impairment loss on property, plant and equipment recorded during the year of ¥226 million (equivalent to approximately HK$21.2 million), partially offset by a decrease in net loss on derivative financial instruments by ¥189 million (equivalent to approximately HK$17.8 million), or 94.0%, from ¥201 million to ¥12 million (equivalent to approximately HK$1 million). The net loss on derivative financial instruments decreased as a result of the expiration of certain interest rate swap contracts as at 31 March 2012, which we entered into to hedge interest rate exposure for bank borrowings.

Finance costs

Finance costs decreased by ¥304 million (equivalent to approximately HK$28.6 million), or 14.2%, from ¥2,137 million for the year ended 31 March 2011 to ¥1,833 million (equivalent to approximately HK$172 million) for the year ended 31 March 2012. The decrease was due primarily to a decrease in bank borrowings during the year. We discontinued our practice of incurring borrowings from related parties in November 2011, and have no intention of borrowing further amounts from related parties. For further information on such borrowings, see Note 34 to the Accountants' Report in Appendix I to this Prospectus.

Income tax expenses

Our income tax expenses increased by ¥221 million (equivalent to approximately HK$20.8 million), or 1.8%, from ¥12,285 million for the year ended 31 March 2011 to ¥12,506 million (equivalent to approximately HK$1,175 million) for the year ended 31 March 2012. Our effective tax rate was 43.1% for the year ended 31 March 2011 and 44.0% for the year ended 31 March 2012. Our effective tax rate increased for the year because beginning 1 April 2012, our effective corporate tax rate decreased from 40.7% to 35.6%, as a result of the Tax Reform 2011 announced by the Ministry of Finance of Japan in December 2011 and led to a one-time downward adjustment of deferred tax assets and a corresponding one-time increase in deferred tax.

Profit for the year

As a result of the foregoing, our profit for the year decreased by 1.8%, from ¥16,191 million for the year ended 31 March 2011 to ¥15,898 million (equivalent to approximately HK$1,497 million) for the year ended 31 March 2012.

Year ended 31 March 2011 compared to the year ended 31 March 2010

Gross pay-ins

Our gross pay-ins decreased by ¥2,141 million, or 0.2%, from ¥862,023 million for the year ended 31 March 2010 to ¥859,882 million for the year ended 31 March 2011.

Traditional halls. Gross pay-ins for traditional halls decreased by ¥46,037 million, or 6.1%, from ¥759,481 million for the year ended 31 March 2010 to ¥713,444 million for the year ended 31 March 2011. Average gross pay-ins per hall decreased by ¥261.5 million, or 6.1%, from ¥4,315.2 million to ¥4,053.7 million. These decreases were due to customer migration from high playing cost machines to low playing cost machines as a result of the increase in percentage of low playing cost machine to 21.1% as at 31 March 2011 from 16.7% as at 31 March 2010. The increase was driven by our continuous effort to cater for the change in demand of our customers.

Yuttari Kan halls. Gross pay-ins for *Yuttari Kan* halls increased by ¥21,977 million, or 23.3%, from ¥94,318 million for the year ended 31 March 2010 to ¥116,295 million for the year ended 31 March 2011. The increase was due primarily to the success of our strategy to increase our investment in new machines leading to an increase in average gross pay-ins from customers. Average gross pay-ins from customers per hall increased ¥155.5 million, or 21.4%, from ¥725.5 million to ¥881.0 million. The increase was primarily due to more customers for low playing cost machines visiting our *Yuttari Kan* halls during the year.

Shinrai no Mori. Gross pay-ins for *Shinrai no Mori* halls increased by ¥21,919 million, or 266.5%, from ¥8,224 million for the year ended 31 March 2010 to ¥30,143 million for the year ended 31 March 2011. The increase was primarily due to the opening of 17 additional *Shinrai no Mori* halls during the year. Average gross pay-ins from customers also increased by ¥388.7 million, or 118.1%, from ¥329.0 million for the year ended 31 March 2010 to ¥717.7 million for the year ended 31 March 2011, which reflected the increasing popularity of non-smoking halls and low playing cost machines.

Gross payouts

Our gross payouts decreased by ¥6,317 million, or 0.9%, from ¥696,562 million for the year ended 31 March 2010 to ¥690,245 million for the year ended 31 March 2011.

Traditional halls. Gross payouts decreased by ¥42,371 million, or 6.6%, from ¥637,641 million for the year ended 31 March 2010 to ¥595,270 million for the year ended 31 March 2011, which was in line with a 6.1% decline in gross pay-ins from customers recorded during the year.

Yuttari Kan halls. Gross payouts increased by ¥20,792 million, or 39.1%, from ¥53,125 million for the year ended 31 March 2010 to ¥73,917 million for the year ended 31 March 2011, reflecting an increase in gross pay-ins as well as our lower G-prize mark-ups to our customers in some of our *Yuttari Kan* halls.

Shinrai no Mori. Gross payouts increased by ¥15,262 million, or 263.3%, from ¥5,796 million for the year ended 31 March 2010 to ¥21,058 million for the year ended 31 March 2011, reflecting an increase in gross pay-ins due to the addition of 17 halls during the year.

Revenue and revenue margin

Our revenue increased by ¥4,176 million, or 2.5%, from ¥165,461 million for the year ended 31 March 2010 to ¥169,637 million for the year ended 31 March 2011. The increase in revenue was due primarily to an increase in the number of our pachinko halls from 331 halls to 350 halls during the year.

Traditional halls. Revenue for traditional halls decreased by ¥3,666 million, or 3.0%, from ¥121,840 million for the year ended 31 March 2010 to ¥118,174 million for the year ended 31 March 2011. The decrease was primarily due to a decrease in gross pay-ins over the year. Revenue margin slightly increased from 16.0% to 16.6%, mainly as a result of changing the machine mix to a greater portion of higher jackpot probability machines in the halls. Higher jackpot probability machines generally result in higher revenue margins.

Yuttari Kan halls. Revenue for *Yuttari Kan* halls increased by ¥1,185 million, or 2.9%, from ¥41,193 million for the year ended 31 March 2010 to ¥42,378 million for the year ended 31 March 2011. The increase was primarily due to additional machine spending resulting in increased gross pay-ins during the year, partially offset by lower G-prize mark-ups for machines in our *Yuttari Kan* halls. In order to enhance our competitiveness and attract more customers, we lowered G-prize mark-ups for machines in some of our halls. As a result, revenue margin decreased from 43.7% to 36.4%.

Shinrai no Mori halls. Revenue for *Shinrai no Mori* halls increased by ¥6,657 million, or 274.2%, from ¥2,428 million for the year ended 31 March 2010 to ¥9,085 million for the year ended 31 March 2011. The increase was primarily due to the addition of 17 new halls during the year. Revenue margin for *Shinrai no Mori* halls slightly increased from 29.5% to 30.1%.

Other income

Other income increased by ¥64 million, or 0.9%, from ¥6,898 million for the year ended 31 March 2010 to ¥6,962 million for the year ended 31 March 2011. The increase was due primarily to an increase of commission income from vending machines and in-store sales of ¥334 million, a reversal of impairment losses on property, plant and equipment of ¥352 million, offsetting the impact of a one-off gain of ¥766 million on bargain purchase resulting from discount on acquisition of Cabin Plaza and Daikokuten in the prior year.

Hall operating expenses

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

	Year ended 31 March															
	2010								2011							
	Traditional		Yuttari Kan		Shinrai no Mori		Total		Traditional		Yuttari Kan		Shinrai no Mori		Total	
	(in ¥ millions, except for percentages)															
		%		%		%		%		%		%		%		%
Hall staff costs	29,748	32.2	11,740	32.9	1,606	24.1	43,094	32.0	29,899	32.6	12,616	32.1	3,429	25.8	45,944	31.9
Machine expenses	28,002	30.3	5,651	15.8	2,040	30.6	35,693	26.5	28,941	31.6	8,807	22.4	3,542	26.7	41,290	28.6
Depreciation charges	5,892	6.4	4,457	12.5	1,050	15.8	11,399	8.5	5,090	5.6	3,939	10.0	2,424	18.2	11,453	7.9
Rental	5,774	6.2	3,491	9.8	318	4.8	9,583	7.1	5,515	6.0	3,738	9.5	790	5.9	10,043	7.0
Advertising expenses	4,639	5.0	1,254	3.5	450	6.8	6,343	4.7	5,474	6.0	1,468	3.7	724	5.5	7,666	5.3
Utilities expenses	2,701	2.9	1,746	4.9	148	2.2	4,595	3.4	2,686	2.9	1,801	4.6	414	3.1	4,901	3.4
G-prize expenses	2,461	2.7	1,655	4.6	167	2.5	4,283	3.2	2,438	2.7	1,699	4.3	456	3.4	4,593	3.2
Cleaning and ancillary services	2,769	3.0	1,691	4.8	152	2.3	4,612	3.4	2,501	2.7	1,439	3.7	288	2.2	4,228	2.9
Repair and maintenance	2,034	2.2	1,048	2.9	54	0.8	3,136	2.3	1,816	2.0	1,014	2.6	137	1.0	2,967	2.1
Others	8,391	9.1	2,987	8.3	671	10.1	12,049	8.9	7,316	7.9	2,760	7.1	1,078	8.2	11,154	7.7
Total	92,411	100.0	35,720	100.0	6,656	100.0	134,787	100.0	91,676	100.0	39,281	100.0	13,282	100.0	144,239	100.0

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

	Year ended 31 March															
	2010								2011							
	Traditional		*Yuttari Kan*		*Shinrai no Mori*		Total		Traditional		*Yuttari Kan*		*Shinrai no Mori*		Total	
	(in ¥ millions, except for percentages)															
		%		%		%		%		%		%		%		%
Hall staff costs	169.0	32.2	90.3	32.9	64.2	24.1	130.2	32.0	169.9	32.6	95.6	32.1	81.6	25.8	131.3	31.9
Machine expenses	159.1	30.3	43.5	15.8	81.6	30.6	107.8	26.5	164.4	31.6	66.7	22.4	84.3	26.7	118.0	28.6
Depreciation charges	33.5	6.4	34.3	12.5	42.0	15.8	34.4	8.5	28.9	5.6	29.8	10.0	57.7	18.2	32.7	7.9
Rental	32.8	6.2	26.9	9.8	12.7	4.8	29.0	7.1	31.3	6.0	28.3	9.5	18.8	5.9	28.7	7.0
Advertising expenses	26.4	5.0	9.6	3.5	18.0	6.8	19.2	4.7	31.1	6.0	11.1	3.7	17.2	5.5	21.9	5.3
Utilities expenses	15.3	2.9	13.4	4.9	5.9	2.2	13.9	3.4	15.3	2.9	13.6	4.6	9.9	3.1	14.0	3.4
G-prize expenses	14.0	2.7	12.7	4.6	6.7	2.5	12.9	3.2	13.9	2.7	12.9	4.3	10.9	3.4	13.1	3.2
Cleaning and ancillary services	15.8	3.0	13.1	4.8	6.1	2.3	13.9	3.4	14.3	2.7	11.0	3.7	6.9	2.2	12.1	2.9
Repair and maintenance	11.6	2.2	8.1	2.9	2.2	0.8	9.5	2.3	10.3	2.0	7.7	2.6	3.3	1.0	8.5	2.1
Others	47.6	9.1	22.9	8.3	26.8	10.1	36.4	8.9	41.5	7.9	20.9	7.1	25.7	8.2	31.8	7.7
Total	525.1	100.0	274.8	100.0	266.2	100.0	407.2	100.0	520.9	100.0	297.6	100.0	316.3	100.0	412.1	100.0

Hall operating expenses increased by ¥9,452 million, or 7.0%, from ¥134,787 million to ¥144,239 million during the year, primarily attributable to the increase in number of *Yuttari Kan* and *Shinrai no Mori* halls.

Traditional halls. Hall operating expenses decreased by ¥735 million, or 0.8%, from ¥92,411 million for the year ended 31 March 2010 to ¥91,676 million for the year ended 31 March 2011. On a per hall basis, average hall expenses also decreased by 0.8%. The decreases were due primarily to decreases in cleaning expenses, depreciation charges, G-prize expenses, rental expenses and others, partially offset by a 3.3% increase in pachinko and pachislot machines expenses. We acquired more new machines during the year with the intention of attracting more customers to our halls.

Yuttari Kan halls. Hall operating expenses increased by ¥3,561 million, or 10.0%, from ¥35,720 million for the year ended 31 March 2010 to ¥39,281 million for the year ended 31 March 2011. On a per hall basis, average hall expenses increased by 8.3%, from ¥274.8 million for the year ended 31 March 2010 to ¥297.6 million for the year ended 31 March 2011. The increases were due primarily to a 53.3% increase in machine expenses and a 5.9% increase in hall staff costs. We added more new machines in order to enhance their attractiveness to customers and added more staff to better serve our customers.

Shinrai no Mori. Hall operating expenses increased by ¥6,626 million, or 99.5%, from ¥6,656 million for the year ended 31 March 2010 to ¥13,282 million for the year ended 31 March 2011, primarily due to the addition of 17 new halls, as well as the results of a full year's operation in the year ended 31 March 2011 for 22 new halls opened in the year ended 31 March 2010. On a per hall basis, average hall operating expenses increased by 18.8%, from ¥266.2 million for the year ended 31 March 2010 to ¥316.3 million for the year ended 31 March 2011. The increase was due primarily to a 27.1% increase in hall staff costs per hall to ¥81.6 million in the year ended 31 March 2011 from ¥64.2 million in the year ended 31 March 2010, and a 37.4% increase in depreciation charges per hall to ¥57.7 million in the year ended 31 March 2011 from ¥42.0 million in the year ended 31 March 2010, as a result of the full year's operation of the 22 new halls opened in the year ended 31 March 2010.

General and administrative expenses

General and administrative expenses increased by ¥292 million, or 45.5%, from ¥642 million for the year ended 31 March 2010 to ¥934 million for the year ended 31 March 2011. The increase was primarily due to an increase of staff costs by ¥115 million, or 43.4%, from ¥265 million for the year ended 31 March 2010 to ¥380 million for the year ended 31 March 2011. The increase reflected an increase in headcount in our administrative departments. The number of staff increased from 43 as at 31 March 2010 to 63 as at 31 March 2011 as we increased our personnel in our data processing and IT departments.

Other operating expenses

Other operating expenses decreased by ¥375 million, or 31.6%, from ¥1,188 million for the year ended 31 March 2010 to ¥813 million for the year ended 31 March 2011. The decrease was primarily due to a decrease in impairment loss on property, plant and equipment, and to a lesser extent a decrease in expenses on investment properties. Impairment loss on property, plant and equipment was ¥421 million in the year ended 31 March 2010 and nil in the year ended 31 March 2011, reflecting that the value in use of property, plant and equipment exceeded the carrying amount at year end. Expenses on investment properties decreased by 25.6%, as compared to the previous year, due primarily to an expiration of a lease agreement.

Finance costs

Finance costs decreased by ¥305 million, or 12.5%, from ¥2,442 million for the year ended 31 March 2010 to ¥2,137 million for the year ended 31 March 2011. The decrease was primarily due to a decrease of ¥201 million in interest expenses on bank loans, reflecting a repayment of bank loans in the principal amount of ¥30,527 million. The decrease in finance costs also reflected a change in the payment method of machine purchases from the instalment method to payment on a monthly basis, as a result of which interest on machine instalment payables decreased from ¥239 million for the year ended 31 March 2010 to zero for the year ended 31 March 2011.

Income tax expenses

Our income tax expenses decreased by ¥801 million, or 6.1%, from ¥13,086 million for the year ended 31 March 2010 to ¥12,285 million for the year ended 31 March 2011. Our effective tax rate was 39.3% for the year ended 31 March 2010 and 43.1% for the year ended 31 March 2011. The decrease in income tax expenses in the year ended 31 March 2011 compared to the year ended 31 March 2010 was due primarily to a decrease of ¥4,824 million in profit before tax. The increase in the effective tax rate was due primarily to additional tax liability applicable to a Specified Family Company of ¥360 million.

Profit for the year

As a result of the foregoing, our profit for the year decreased by ¥4,023 million, or 19.9%, from ¥20,214 million for the year ended 31 March 2010 to ¥16,191 million for the year ended 31 March 2011.

Liquidity and Capital Resources

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

We have historically met our working capital and other liquidity requirements principally from cash generated by our operations, while financing the remainder primarily through bank borrowings. Going forward, we expect to continue relying principally on our internally-generated cash flows for our working capital and other liquidity requirements, and will also use the proceeds from the Global Offering and bank borrowings as capital resources to finance a portion of our operations. We have historically relied primarily on short-term debt, rather than long-term debt, in order to take advantage of the significantly lower interest rates on short-term debt, which in turn lowers our financing costs, and is also consistent with our approach to finance working capital. Should we increase the amount of our long-term capital expenditures and other capital commitments in the future, we may finance these long-term expenditures with long-term debt, if necessary.

Cash flows

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

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Net cash generated from operating activities	19,229	33,399	31,906	2,998
Net cash (used in)/generated from investing activities	(10,053)	(17,248)	10,998	1,034
Net cash used in financing activities	(7,560)	(20,778)	(31,840)	(2,992)
Net increase/(decrease) in cash and cash equivalents	1,616	(4,627)	11,064	1,040
Cash and cash equivalents as at beginning of the year	20,471	22,087	17,460	1,641
Cash and cash equivalents as at the end of the year	22,087	17,460	28,524	2,681

Net cash generated from operating activities

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

	Year ended 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Operating profit before working capital changes	47,358	42,510	42,498	3,994
Change in working capital — (used)/ generated	(5,507)	(553)	2,704	254
Cash generated from operations	41,851	41,957	45,202	4,248
Income taxes paid	(20,429)	(6,975)	(12,360)	(1,162)
Finance costs paid	(2,193)	(1,583)	(936)	(88)
Net cash generated from operating activities	19,229	33,399	31,906	2,998

Net cash generated from operating activities was ¥19,229 million, ¥33,399 million and ¥31,906 million (equivalent to approximately HK$2,998 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

Our net cash generated from operating activities was ¥31,906 million (equivalent to approximately HK$2,998 million) for the year ended 31 March 2012 as compared to ¥33,399 million for the year ended 31 March 2011. The reduction in our net cash generated from operating activities was mainly a result of a ¥5,385 million (equivalent to approximately HK$506 million) increase in income taxes paid, partially offset by increase in working capital by ¥3,257 million (equivalent to approximately HK$306 million). We generated ¥2,704 million (equivalent to approximately HK$254 million) in working capital during the year ended 31 March 2012, which mainly reflected an increase of ¥3,349 million (equivalent to approximately HK$315 million) in accruals and other payables resulting from an increase in pachinko and pachislot machines payables, hall construction and system payables and accrued staff cost. The positive effects on working capital were partially offset by an increase of ¥1,083 million (equivalent to approximately HK$102 million) in prepayments, deposits and other receivables, which included prepayment of IPO expenses and increases in withholding tax receivable.

Our net cash generated from operating activities was ¥33,399 million for the year ended 31 March 2011 as compared to ¥19,229 million for the year ended 31 March 2010. The increase mainly reflected lower income taxes paid of ¥13,454 million as compared to the year ended 31 March 2010, partially offset by a ¥4,848 million decrease in operating profit before working capital changes. We used ¥553 million in working capital for the year ended 31 March 2011, which mainly reflected a decrease of ¥1,857 million in accruals and other payables primarily due to the decreases of (a) pachinko and pachislot machines payables; (b) other tax expenses; and (c) halls construction and related system payables after offsetting the increases of accrued staff costs and unutilised balls and tokens. These negative effects on working capital were partially offset by a decrease of ¥1,258 million in inventories primarily because lower inventories were maintained as at 31 March 2011.

Net cash (used in) generated from investing activities

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

For the year ended 31 March 2012, net cash generated from investing activities was ¥10,998 million (equivalent to approximately HK$1,034 million) compared to cash used in investing activities of ¥17,248 million for the year ended 31 March 2011. The cash inflow was primarily due to a ¥17,438 million (equivalent to approximately HK$1,639 million) decrease in amounts due from related companies, which mainly reflected the repayment of amounts lent by our Group to related companies. This was partially offset by ¥7,471 million (equivalent to approximately HK$702 million) used in purchases of property, plant and equipment for the year ended 31 March 2012 as compared with ¥6,152 million for the year ended 31 March 2011.

For the year ended 31 March 2011, net cash used in investing activities increased by ¥7,195 million, or 71.6%, from ¥10,053 million for the year ended 31 March 2010 to ¥17,248 million for the year ended 31 March 2011. The increase was primarily due to an advance of ¥11,294 million to related companies, partially offset by a decrease in purchase of property, plant and equipment of ¥4,981 million, as compared with ¥11,133 million used for the purchase of property, plant and equipment for the year ended 31 March 2010.

Net cash used in financing activities

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

For the year ended 31 March 2012, net cash used in financing activities increased by ¥11,062 million (equivalent to approximately HK$1,040 million), or 53.2%, from ¥20,778 million for the year ended 31 March 2011 to ¥31,840 million (equivalent to approximately HK$2,992 million) for the year ended 31 March 2012. The increase was primarily due to an ¥17,799 million (equivalent to approximately HK$1,673 million) increase in repayment to related parties for the year ended 31 March 2012 and a ¥6,926 million (equivalent to approximately HK$651 million) increase in repayment of bank loans as compared to the prior period. These negative effects in financing activities were partially offset by an increase in convertible bonds raised by ¥4,999 million (equivalent to approximately HK$470 million) and an increase in proceeds from incorporation of the Company under the Reorganisation of ¥7,242 million (equivalent to approximately HK$681 million).

For the year ended 31 March 2011, net cash used in financing activities increased by ¥13,218 million, or 174.8%, from ¥7,560 million for the year ended 31 March 2010 to ¥20,778 million for the year ended 31 March 2011. The increase was primarily due to a ¥29,248 million decrease in the amount of bank loans raised as compared to the previous year, partially offset by a decrease in repayment of bank loans. Repayment of bank loans decreased by ¥12,778 million for the year ended 31 March 2011 as compared to the year ended 31 March 2010.

Working capital

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

	As at 31 March				As at 31 May	
	2010	2011	2012		2012	
	¥	¥	¥	HK$[(1)]	¥	HK$[(2)]
			(in millions)			
Current assets						
Inventories	5,981	4,747	4,531	426	4,784	474
Trade receivables	374	352	381	36	407	40
Prepayments, deposits and other receivables	2,948	2,321	3,415	322	4,622	458
Financial assets at fair value through profit or loss	377	—	—	—	—	—
Amounts due from related companies	517	8,998	20	2	19	2
Fixed bank deposits	687	888	—	—	—	—
Bank and cash balances	22,087	17,460	28,524	2,681	19,869	1,967
	32,971	34,766	36,871	3,467	29,701	2,941
Current liabilities						
Trade payables	1,459	1,232	1,148	108	963	95
Accruals and other payables	19,329	17,600	21,090	1,983	19,134	1,894
Derivative financial instruments	272	200	62	6	62	6
Amounts due to related companies	2,513	896	443	42	449	44
Borrowings	26,335	15,439	1,654	155	1,655	164
Finance lease payables	1,932	1,373	1,187	112	1,190	118
Provisions	1,309	1,318	1,460	137	1,459	144
Current tax liabilities	2,598	6,962	6,340	596	2,272	225
	55,747	45,020	33,384	3,139	27,184	2,690
Net current (liabilities)/assets	(22,776)	(10,254)	3,487	328	2,517	251

(1) Translated into Hong Kong dollars at the rate of ¥10.64 to HK$1.00, which was the exchange rate prevailing on 30 March 2012 (i.e. the last business day during the Track Record Period).

(2) Translated into Hong Kong dollars at the rate of ¥10.10 to HK$1.00, which was the exchange rate prevailing on 31 May 2012.

We have financed our operations and expansion with cash raised from our operating and financing activities. We had short-term borrowings of ¥26,335 million, ¥15,439 million and ¥1,654 million (equivalent to approximately HK$155 million) as at 31 March 2010, 2011 and 2012 respectively. We used a significant amount of such short-term borrowings to invest in the construction of our pachinko halls. We normally record our pachinko halls as long-term assets rather than current assets.

Our cash used in the acquisition of fixed assets, including the construction of pachinko halls, was ¥11,133 million and ¥6,152 million for the years ended 31 March 2010 and 2011, respectively. As a result, we recorded net current liabilities of ¥22,776 million and ¥10,254 million as at 31 March 2010 and 2011, respectively. In the year ended 31 March 2012, we recorded net current assets of ¥3,487 million (equivalent to approximately HK$328 million).

Our net current liability position is generally in line with what we believe to be appropriate for the pachinko industry, where pachinko operators use short-term and long-term borrowings to finance their long-term investments in pachinko halls. With an improved financing position and performance as at 31 March 2010 and 2011, we were able to secure additional bank borrowings of ¥43,098 million and ¥13,850 million for the years ended 31 March 2010 and 2011, respectively. After Listing, we intend to use a higher proportion of long-term loans to finance our operation and expansion.

As at the Latest Practicable Date, we had not defaulted on the repayment of any of our borrowings, or experienced any difficulty in raising funds with our principal banks or in rolling over short-term borrowings from various banks.

Notwithstanding the above, we plan to improve our liquidity position by funding our expansion plans for 2012 and 2013 with the proceeds from the Global Offering. Please see the section headed "Future Plans and Use of Proceeds" in this Prospectus.

The Directors are of the opinion that, taking into account the financial resources available to our Group including internally generated funds, the available banking facilities and the estimated net proceeds from the issue of Shares under the Global Offering, the working capital available to our Group is sufficient for our present requirements and for at least the next 12 months from the date of this Prospectus. As at 31 March 2012, we had ¥25,000 million (equivalent to approximately HK$2,350 million) of banking facilities available to us from commercial banks, of which approximately ¥9,000 million (equivalent to approximately HK$846 million) was unutilised, and cash and cash equivalents of ¥28,524 million (equivalent to approximately HK$2,681 million).

Inventories

The following table sets forth the components of our inventories as at the dates indicated:

	As at 31 March			
	2010	**2011**	**2012**	
	¥	***¥***	***¥***	***HK$***
		(in millions)		
G-Prize	3,339	3,128	2,276	214
General prize	1,181	1,029	1,093	103
Supplies	1,461	590	1,162	109
	5,981	4,747	4,531	426

Our total inventories decreased from ¥5,981 million as at 31 March 2010 to ¥4,747 million as at 31 March 2011. The decrease was primarily attributable to decreases of supplies and prizes. As a result of the Great East Japan Earthquake in March 2011, logistics services were significantly affected throughout Japan. Therefore, our inventory level was lower as compared to the previous year.

Our total inventories decreased from ¥4,747 million as at 31 March 2011 to ¥4,531 million (equivalent to approximately HK$426 million) as at 31 March 2012, which was primarily attributable to a decrease in G-prizes of ¥852 million (equivalent to approximately HK$80 million), partially offset by an increase in general prizes and supplies by ¥64 million (equivalent to approximately HK$6 million) and ¥572 million (equivalent to approximately HK$54 million), respectively.

Trade receivables and prepayments, deposit and other receivables

The following table sets forth our trade receivables, prepayments, deposit and other receivables as at the dates indicated:

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Trade receivables	374	352	381	36
Prepayments				
Lender commitment fee	319	153	226	21
Insurance	82	79	81	8
Rental	1,604	1,697	1,817	171
Staff advance	88	44	51	5
Withholding tax receivable	—	—	423	40
IPO expenses	—	—	533	50
Others	472	161	177	17
	2,565	2,134	3,308	312
Deposit	179	—	—	—
Other receivables				
Consumption tax refundable(1)	187	75	53	5
G-prize refundable(2)	—	112	—	—
Income tax refundable(3)	17	—	54	5
	204	187	107	10
	2,948	2,321	3,415	322

(1) In Japan, a 5% consumption tax is levied on all taxable transactions. Consumption tax refundable is calculated based on the net of the consumption tax paid minus consumption tax collected.

(2) When a refund is made by wholesalers to us for returned G-prizes, our bank and cash increases and other receivables decreases accordingly.

(3) Income tax refundable is the excessive provisional tax payment paid during the period. The provisional tax payment is calculated based on the estimated tax assessable profit during the period.

Our trade receivables are primarily related to commission income from vending machines. Our trade receivables were ¥374 million, ¥352 million and ¥381 million (equivalent to approximately HK$36 million) as at 31 March 2010, 2011, and 2012, respectively. We seek to maintain strict control over trade receivables. The credit terms of the trade receivables range up to 30 days and no balances were past due as at 31 March 2010, 2011 and 2012.

Our prepayments, deposit and other receivables decreased from ¥2,948 million as at 31 March 2010 to ¥2,321 million as at 31 March 2011, primarily reflecting a decrease in deposits, lender commitment fee, consumption tax refundable and other prepayments, partially offset by an increase in rental prepayments. Japanese consumption tax is a pass-through tax for registered companies in Japan, and consumption tax amounts paid by us are deductible against tax amounts collected through taxable sales or income. During the year ended 31 March 2011, a net amount of approximately ¥75 million was received from the Japan tax authority as a refund, resulting in a decrease of the consumption tax refundable. Furthermore, prepayments for the construction of new halls as included in other prepayments decreased by approximately ¥185 million as less new halls were constructed in the following year. Lender commitment fee was related to the commitment fee paid for the short term banking facility obtained. Lender commitment fee decreased by ¥166 million, from ¥319 million as at 31 March 2010 to ¥153 million as at 31 March 2011, because we obtained a three year banking facility of which the lender commitment fee was booked in other long-term receivables.

Our prepayments, deposit and other receivables increased from ¥2,321 million as at 31 March 2011 to ¥3,415 million (equivalent to approximately HK$322 million) as at 31 March 2012, primarily due to IPO expenses totalling approximately ¥533 million (equivalent to approximately HK$50 million) during the year and an increase of ¥54 million (equivalent to approximately HK$5 million) in income tax refundable. The increase in income tax refundable was primarily due to an excessive tax prepayment, which was calculated based on our estimate of tax assessable for the period.

Trade payables and accruals and other payables

The following table sets forth our trade payables, accruals and other payables as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Trade payables	1,459	1,232	1,148	108
Accruals and other payables				
Accrued interest expenses	103	48	8	1
Accrued staff costs	6,391	6,628	7,598	714
Advertisement and promotion payables	450	349	512	48
Unutilised balls and tokens	3,792	4,173	4,198	395
Halls construction and system payables	2,473	2,367	2,669	251
Other tax expenses	2,372	1,056	1,816	171
Pachinko and pachislot machines payables	3,199	2,495	3,745	352
Rental receipt in advance	68	69	73	7
Others	481	415	471	44
	19,329	17,600	21,090	1,983

Our trade payables are primarily related to purchases of general prizes and supplies. Our trade payables were ¥1,459 million, ¥1,232 million and ¥1,148 million (equivalent to approximately HK$108 million) as at 31 March 2010, 2011 and 2012, respectively. Trade payables turnover days were within 30 days as at 31 March 2010, 2011 and 2012.

As at 31 March 2010, 2011 and 2012, we had other payables of ¥19,329 million, ¥17,600 million and ¥21,090 million (equivalent to approximately HK$1,983 million), respectively. Our other payables mainly comprise accrued staff costs, unutilised balls and tokens, halls construction and system payables, other tax expenses and pachinko and pachislot machines payables.

Our other payables decreased from ¥19,329 million as at 31 March 2010 to ¥17,600 million as at 31 March 2011, primarily due to a decrease of other tax expenses of ¥1,316 million, which resulted from a decrease of tax payable on fixed assets acquisition of ¥116 million, of withholding tax payable on dividends paid during the year of ¥762 million and of consumption tax payable of ¥441 million.

Our other payables increased from ¥17,600 million as at 31 March 2011 to ¥21,090 million (equivalent to approximately HK$1,983 million) as at 31 March 2012. The increase was primarily due to an increase of accrued staff costs, reflecting an increase in headcount and general wages and allowances and an increase of pachinko and pachislot machines payables, reflecting a considerable amount of pachinko and pachislot machine purchases incurred in March 2012 as compared to the prior year.

Our Directors confirm that we had no material defaults on our trade and other payables during the Track Record Period.

Convertible bonds

On 22 November 2011, the Company entered into convertible bonds agreements with each of the seven independent investors in respect of the issue of convertible bonds in an aggregate principal amount of US$65 million (the "Pre-IPO CBs"). The maturity date of the Pre-IPO CBs is 21 November 2012. The Pre-IPO CBs bear interest from the date of issue at the rate of 1% per annum and are payable in arrears on the maturity date.

On 1 March 2012, our Company issued a notice to each of the CB Holders to fully redeem the Pre-IPO CBs at a price equivalent to the principal amount of the Pre-IPO CBs together with accrued interest, in accordance with the terms of the Pre-IPO CBs. The decision to redeem the Pre-IPO CBs was made after the review of our working capital, which, in the opinion of our Directors, is sufficient to support our short-term business needs absent the subscription monies of the Pre-IPO CBs. The redemption of the Pre-IPO CBs was completed on 12 March 2012. Following the redemption of the Pre-IPO CBs, none of the CB Holders is entitled to any form of securities in our Company.

Analysis of financial position

The following table sets forth our non-current assets and liabilities as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Non-current assets				
Property, plant and equipment	101,191	98,004	95,033	8,931
Investment properties	999	982	1,027	97
Intangible assets	1,775	1,678	1,489	140
Available-for-sale financial assets	5,093	5,357	509	48
Held-to-maturity investment	10	10	10	1
Deferred tax assets	12,572	11,549	10,864	1,022
Other long-term assets	11,750	11,426	10,658	1,002
Amount due from a related company	—	2,800	—	—
Fixed bank deposits	597	355	—	—
	133,987	132,161	119,590	11,241
Non-current liabilities				
Derivative financial instruments	234	181	134	12
Amount due to a related company	2,900	5,580	—	—
Borrowings	27,934	22,578	21,583	2,029
Finance lease payables	3,277	3,074	2,331	219
Retirement benefit obligations	1,502	1,462	1,804	170
Other long-term liabilities	371	347	338	32
Provisions	3,064	3,315	3,413	321
	39,282	36,537	29,603	2,783

Property, plant and equipment

The following table sets forth our property, plant and equipment as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Buildings including leasehold improvements	55,170	53,971	51,573	4,847
Freehold land	25,774	26,549	26,736	2,513
Tools and equipment	18,300	17,111	16,697	1,569
Construction in progress	1,881	341	4	^
Motor vehicles	66	32	23	2
	101,191	98,004	95,033	8,931

^ Less than HK$0.5 million.

As at 31 March 2010, 2011 and 2012, we had property, plant and equipment of ¥101,191 million, ¥98,004 million and ¥95,033 million (equivalent to approximately HK$8,931 million), respectively. Our property, plant and equipment primarily include buildings including leasehold improvements, freehold land, tools and equipment, construction in progress and motor vehicles.

Our property, plant and equipment decreased from ¥101,191 million as at 31 March 2010 to ¥98,004 million as at 31 March 2011, primarily attributable to depreciation charges of ¥11,462 million, partially offset by an addition to property, plant and equipment of ¥7,630 million. The addition to property, plant and equipment was primarily related to the expansion of 18 pachinko halls during the year.

Our property, plant and equipment decreased from ¥98,004 million as at 31 March 2011 to ¥95,033 million (equivalent to approximately HK$8,931 million) as at 31 March 2012, primarily due to depreciation charges of ¥10,804 million (equivalent to approximately HK$1,015 million), partially offset by an addition to property, plant and equipment of ¥7,998 million (equivalent to approximately HK$752 million). The addition to property, plant and equipment was primarily related to the replacement of tools and equipment and expansion of five pachinko halls during the year.

Investment properties

As at 31 March 2010, 2011 and 2012, we had investment properties of ¥999 million, ¥982 million and ¥1,027 million (equivalent to approximately HK$97 million), respectively. Our investment properties comprise pachinko halls leased to independent third parties and freehold land held for capital appreciation.

Our investment properties decreased from ¥999 million as at 31 March 2010 to ¥982 million as at 31 March 2011, primarily due to a decrease in fair value of ¥17 million during the year.

Our investment properties increased from ¥982 million as at 31 March 2011 to ¥1,027 million (equivalent to approximately HK$97 million) as at 31 March 2012, primarily due to the transfer from property, plant and equipment of ¥66 million (equivalent to approximately HK$6 million), partially offset by a decrease in fair value of ¥21 million (equivalent to approximately HK$2 million) during the year.

Intangible assets

The following table sets forth our intangible assets as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	*HK$*
		(in millions)		
Computer software	1,763	1,630	1,432	135
Goodwill	10	47	47	4
Trademarks	2	1	10	1
	1,775	1,678	1,489	140

As at 31 March 2010, 2011 and 2012, we had intangible assets of ¥1,775 million, ¥1,678 million and ¥1,489 million (equivalent to approximately HK$140 million), respectively. Our intangible assets comprise computer software, goodwill and trademarks.

Our intangible assets decreased from ¥1,775 million as at 31 March 2010 to ¥1,678 million as at 31 March 2011, primarily due to amortisation charges of ¥549 million, partially offset by the addition in software of ¥415 million and addition in goodwill of ¥37 million during the year. The addition in software was primarily attributable to the upgrade of the systems in pachinko halls during the year. The addition in goodwill was primarily due to the acquisition of Okuwa Japan during the year.

Our intangible assets decreased from ¥1,678 million as at 31 March 2011 to ¥1,489 million (equivalent to approximately HK$140 million) as at 31 March 2012, primarily due to amortisation charges of ¥495 million (equivalent to approximately HK$47 million) and intangible assets written off of ¥268 million (equivalent to approximately HK$25 million), partially offset by the addition in software of ¥390 million (equivalent to approximately HK$37 million) during the period. The addition in software was primarily attributable to the upgrade of the systems in pachinko halls during the year.

Available-for-sale financial assets

As at 31 March 2010, 2011 and 2012, we had available-for-sale financial assets of ¥5,093 million, ¥5,357 million and ¥509 million (equivalent to approximately HK$48 million), respectively. Our available-for-sale financial assets comprise listed securities in Japan, investment in DYH and club memberships.

Our available-for-sale financial assets increased from ¥5,093 million as at 31 March 2010 to ¥5,357 million as at 31 March 2011, primarily due to the conversion of the convertible bonds for listed equity securities of the issuer, increasing our holding of these listed equity securities from ¥151 million as at 31 March 2010 to ¥424 million as at 31 March 2011.

Our available-for-sale financial assets decreased from ¥5,357 million as at 31 March 2011 to ¥509 million (equivalent to approximately HK$48 million) as at 31 March 2012, primarily due to the distribution of a dividend in shares of DYH held by us to DYH during the year.

Held-to-maturity investment

Our held-to-maturity investment comprises national Japanese government bonds, which carry a fixed interest rate of 1% per annum, payable bi-annually, and mature in June 2013. Our held-to-maturity investment was ¥10 million (equivalent to approximately HK$1 million) as at 31 March 2010, 2011 and 2012, respectively.

Deferred tax assets

Deferred tax assets represent the excess of amounts expensed to the income statement over allowable deductions under Japanese tax regulations and the recovery of the carrying amount of the machines, which will reduce future tax payments. The following table sets forth our deferred tax assets as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
	(in millions)			
Pachinko and pachislot machines	6,353	7,067	6,275	590
Staff costs	2,539	2,629	2,665	250
Property, plant and equipment	(915)	(1,867)	(1,656)	(156)
Unutilised balls and tokens	1,479	1,603	1,540	145
Pre-paid rent	950	1,065	1,081	102
Investment properties	145	122	112	11
Others(1)	2,021	930	847	80
	12,572	11,549	10,864	1,022

(1) Others mainly represent deferred tax assets recognised on the timing difference of the loss on derivative financial instruments, loss on earthquake, provision for bad debts and impairment of pachinko union fund. The pachinko union fund is established by pachinko hall operators in each prefecture to promote corporate social responsibility activities, exchange of industry information and promote the development of the pachinko industry. However, joining these unions is voluntary and at the discretion of the hall operator. A hall operator may join a pachinko union at any time after opening a hall in the relevant prefecture. Each union has its own guidelines which set the one-off amount an operator must contribute to join, as well as the ongoing monthly or annual membership fees. Each local union determines these amounts, which may vary among unions in different prefectures. The initial one-off contribution amounts may generally be refunded if the hall ceases operations or if the fund is dissolved. While joining the unions may allow us better access to local industry information, we consider various factors when determining whether to join, including whether the required contribution amount is reasonable to us. For the years ended 31 March 2010, 2011 and 2012, we made contributions of approximately ¥23.9 million, ¥6.3 million, and ¥1.9 million (equivalent to approximately HK$0.2 million) to these funds for 22, five and one of our halls, respectively, joining the pachinko union funds in their respective prefectures. Under our accounting policy, these contributions are initially accounted for under prepayments, deposits and other receivables, and are fully impaired in the year/period they are paid as we do not expect to withdraw our pachinko operations from any of the 46 prefectures where we currently operate. However, under the relevant Japanese tax regulations, such contributions are amortised as an allowable deduction over a five-year period.

As at 31 March 2010, 2011 and 2012, we had deferred tax assets of ¥12,572 million, ¥11,549 million and ¥10,864 million (equivalent to approximately HK$1,022 million), respectively. Our deferred tax assets mainly comprise pachinko and pachislot machines, staff costs, property, plant and equipment, unutilised balls and tokens and others. Because we spent considerable amounts on the purchases of pachinko and pachislot machines during the Track Record Period, significant deferred tax assets in connection with these purchases were recognised. The deferred tax assets in pachinko and pachislot machines increased from ¥6,353 million as at 31 March 2010 and to ¥7,067 million as at 31 March 2011. The increase of pachinko and pachislot machine deferred tax assets was consistent with the increase in pachinko and pachislot machine expenses during the same period. However, as at 31 March 2012, deferred assets in pachinko and pachislot machines decreased by ¥792 million (equivalent to approximately HK$74.4 million) to ¥6,275 million (equivalent to approximately HK$590 million) from ¥7,067 million as at 31 March 2011. The decrease reflected a 13.4% decrease of pachinko and pachislot machine expenses, from ¥41,290 million for the year ended 31 March 2011 to ¥35,739 million (equivalent to approximately HK$3,359 million) for the year ended 31 March 2012.

Our deferred tax assets decreased from ¥12,572 million as at 31 March 2010 to ¥11,549 million as at 31 March 2011, primarily due to a decrease in others of ¥1,091 million and increase in property, plant and equipment deferred tax liabilities of ¥952 million. The decrease in others was due primarily to the reversal of unrealised losses upon the conversion of convertible bonds for the listed equity securities of the issuer, together with a decrease in the amount of deferred tax assets recognised for finance leases as compared with prior years due to a reduction in our use of finance leases since 2010. The increase in property, plant and equipment deferred tax liabilities was due primarily to the recognition of additional unrealised losses on disposal of property interests from Dynam to Dynam Land during the year.

Our deferred tax assets decreased from ¥11,549 million as at 31 March 2011 to ¥10,864 million (equivalent to approximately HK$1,022 million) as at 31 March 2012. The decrease in deferred tax assets was primarily due to a ¥792 million (equivalent to approximately HK$74.4 million) decrease in deferred tax assets in pachinko and pachislot machines reflecting a decrease in pachinko and pachislot machine expenses during the year.

Other long-term assets

The following table sets forth our other long-term assets as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Pre-paid rental expenses	6,177	5,794	5,081	478
Rental deposits	4,925	5,022	5,061	476
Pre-paid lender commitment fee	319	297	228	21
Pre-paid insurance expenses	130	70	8	1
Others	199	243	280	26
	11,750	11,426	10,658	1,002

As at 31 March 2010, 2011 and 2012, we had other long-term assets of ¥11,750 million, ¥11,426 million and ¥10,658 million (equivalent to approximately HK$1,002 million), respectively. Our other long-term assets primarily include pre-paid rental expenses, rental deposits and pre-paid lender commitment fee, pre-paid insurance expenses and others.

Our other long-term assets decreased from ¥11,750 million as at 31 March 2010 to ¥11,426 million as at 31 March 2011, primarily due to a ¥383 million decrease in pre-paid rental expenses and ¥60 million decrease in insurance expenses, partially offset by a ¥97 million increase in rental deposits during the year. The decrease in pre-paid rental expenses and pre-paid insurance expenses was due primarily to amortisation charges incurred during the year. The increase in rental deposits was due primarily to 17 additional leasing arrangements that *Shinrai no Mori* halls entered into during the year.

Our other long-term assets decreased from ¥11,426 million as at 31 March 2011 to ¥10,658 million (equivalent to approximately HK$1,002 million) as at 31 March 2012, primarily due to a ¥713 million (equivalent to approximately HK$67 million) decrease in pre-paid rental expenses during the period. The decrease was due primarily to amortisation charges incurred during the year.

Derivative financial instruments

The following table sets forth our derivative financial instruments as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Interest rate swap contracts, at fair value . . .	506	381	196	18
Less: current portion.	(272)	(200)	(62)	(6)
Non-current portion	234	181	134	12

As at 31 March 2010, 2011 and 2012, we had derivative financial instruments of ¥506 million, ¥381 million and ¥196 million (equivalent to approximately HK$18 million), respectively. Our derivative financial instruments comprise interest rate swap contracts and derivative components of convertible bonds. In order to mitigate exposure associated with fluctuations relating to changes in interest rates, we entered into interest rate swap contracts with certain licensed banks in Japan to pay a fixed rate of interest bi-annually.

Our derivative financial instruments decreased from ¥506 million as at 31 March 2010 to ¥381 million as at 31 March 2011 and further decreased to ¥196 million (equivalent to approximately HK$18 million) as at 31 March 2012. These decreases were due primarily to expirations of our interest rate swap contracts and decreases in fair value during the Track Record Period.

We have in place a clear treasury policy in respect of our derivative financial instruments including, but not limited to, the following:

(i) the notional principal amount and maturity of the derivative financial instruments should correspond to the liabilities hedged by the derivative financial instruments;

(ii) our entry into a derivative financial instrument is subject to approval by our Directors and execution by our Finance Department; and

(iii) the use of derivative financial instruments is to hedge risks as part of financial risk management.

As stated in our treasury policy, the purpose of purchasing derivatives is to avoid the risk of fluctuations in interest payments on our borrowings by exchanging floating rates for fixed rates. Therefore, because our investments in derivatives are not for speculative purposes, we assess the risk of the derivative at the time we enter into the relevant derivatives contract.

The following tables set forth the notional amount of the interest rate swap contracts outstanding as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Interest rate swap contracts[1]	30,534	20,297	6,121	575

(1) Floating-to-fixed rate swaps.

Finance lease payables

The following table sets forth our finance lease payables as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Current portion	1,932	1,373	1,187	112
Non-current portion	3,277	3,074	2,331	219
	5,209	4,447	3,518	331

As at 31 March 2010, 2011 and 2012, we had finance lease payables of ¥5,209 million, ¥4,447 million and ¥3,518 million (equivalent to approximately HK$331 million), respectively. Our finance lease payables comprise finance leases of tools and equipment and motor vehicles.

Our finance lease payables decreased from ¥5,209 million as at 31 March 2010 to ¥4,447 million as at 31 March 2011 and further decreased to ¥3,518 million (equivalent to approximately HK$331 million) as at 31 March 2012, primarily due to the repayment of finance leases during the year.

Retirement benefit obligations

As at 31 March 2010, 2011 and 2012, we had retirement benefit obligations of ¥1,502 million, ¥1,462 million and ¥1,804 million (equivalent to approximately HK$170 million), respectively. Our retirement benefit obligations comprise defined benefit retirement plans for full-time employees and Directors upon retirement.

Our retirement benefit obligations decreased from ¥1,502 million as at 31 March 2010 to ¥1,462 million as at 31 March 2011, primarily due to actuarial gains of ¥222 million, partially offset by service costs recognised for the year of ¥217 million.

Our retirement benefit obligations increased from ¥1,462 million as at 31 March 2011 to ¥1,804 million (equivalent to approximately HK$170 million) as at 31 March 2012, primarily due to actuarial losses of ¥194 million (equivalent to approximately HK$18 million) and service costs of ¥211 million (equivalent to approximately HK$20 million) partially offset by current retirement benefits paid of ¥117 million (equivalent to approximately HK$11 million) recognised during the year.

Other long-term liabilities

The following table sets forth our other long-term liabilities as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Rental deposits received	124	139	146	14
Rental receipts in advance	247	208	192	18
	371	347	338	32

As at 31 March 2010, 2011 and 2012, we had long-term liabilities of ¥371 million, ¥347 million and ¥338 million (equivalent to approximately HK$32 million), respectively. Our other long-term liabilities mainly comprise rental deposits received and rental receipts received in advance for our investment properties.

Our other long-term liabilities decreased from ¥371 million as at 31 March 2010 to ¥347 million as at 31 March 2011 and further decreased to ¥338 million (equivalent to approximately HK$32 million) as at 31 March 2012, primarily due to amortisation of rental receipts in advance during the Track Record Period.

Provisions

The following table sets forth our provisions as at the dates indicated.

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Asset retirement obligation[(1)]	3,064	3,315	3,413	321
Staff vacation payable[(2)]	1,309	1,318	1,460	137
	4,373	4,633	4,873	458

(1) Represents estimated costs arising from contractual obligations to a landlord to dismantle and remove leasehold improvements and certain fixed assets upon expiration of the lease, determined based on a fee quotation provided by the removal company.

(2) Calculated based on accumulated unused vacation as at the end of the reporting period, multiplied by the average daily salary of the relevant employee during the period.

As at 31 March 2010, 2011 and 2012, we had provisions of ¥4,373 million, ¥4,633 million and ¥4,873 million (equivalent to approximately HK$458 million), respectively. Our provisions comprise: (i) estimated cost to dismantle and remove leasehold improvements and certain fixed assets at the end of the lease contracts and (ii) staff vacation payables.

Our provisions increased from ¥4,373 million as at 31 March 2010 to ¥4,633 million as at 31 March 2011 and further increased to ¥4,873 million (equivalent to approximately HK$458 million) as at 31 March 2012. These increases were primarily due to the expansion of pachinko halls and an increase in the number of staff during the Track Record Period.

Key Financial Ratios

The following tables set forth our key financial ratios as at the dates or for the periods indicated.

	As at 31 March		
	2010	2011	2012
Current ratio[(1)]	0.6	0.8	1.1
Gearing ratio[(2)]	32.5%	22.8%	14.9%
Debt to equity ratio[(3)]	44.7%	24.1%	(5.7)%

(1) Current ratio represents current assets divided by current liabilities.

(2) Gearing ratio represents total borrowings divided by total assets.

(3) Debt to equity ratio is calculated by dividing net debt by total equity as at the end of each year.

	Year ended 31 March		
	2010	2011	2012
Interest coverage(1)	14.6	14.3	16.5
Return on equity(2)	28.1%	19.0%	17.0%
Return on assets(3)	12.1%	9.7%	10.2%

(1) Interest coverage represents profit before interest and tax divided by interest recorded during the year.
(2) Return on equity is calculated by dividing profit for the year by total equity as at the end of each year.
(3) Return on assets is calculated by dividing profit for the year by total assets as at the end of each year.

Current ratio

As at 31 March 2010, 2011 and 2012, our current ratio was 0.6, 0.8 and 1.1, respectively. Our current ratio as at 31 March 2011 improved to 0.8 compared to 0.6 as at 31 March 2010, primarily due to a decrease in borrowings after repayment of bank loans. Our current ratio as at 31 March 2012 rose to 1.1, because of an increase of bank and cash balances by ¥11,064 million (equivalent to approximately HK$1,040 million) and a decrease in short term borrowings by ¥13,785 million (equivalent to approximately HK$1,296 million) as compared to 31 March 2011.

Gearing ratio

As at 31 March 2010, 2011 and 2012, our gearing ratio was 32.5%, 22.8% and 14.9%, respectively.

Our gearing ratio fell from 32.5% as at 31 March 2010 to 22.8% as at 31 March 2011, and further decreased to 14.9% as at 31 March 2012, primarily due to a decrease of total borrowings by ¥16,252 million and ¥14,780 million (equivalent to approximately HK$1,389 million) for the years ended 31 March 2011 and 2012, respectively.

Debt to equity ratio

As at 31 March 2010, 2011 and 2012, our debt to equity ratio was 44.7%, 24.1%, (5.7)%, respectively. The decrease in our debt to equity ratio was primarily due to the repayment of borrowings and an increase in retained profits during the Track Record Period.

Interest coverage

Interest coverage was 14.6x, 14.3x, 16.5x for the years ended 31 March 2010, 2011 and 2012, respectively. Interest expenses decreased during the Track Record Period as a result of repayments of bank borrowings.

Return on equity

For the years ended 31 March 2010, 2011 and 2012, our return on equity was 28.1%, 19.0% and 17.0%, respectively.

Our return on equity decreased from 28.1% for the year ended 31 March 2010 to 19.0% for the year ended 31 March 2011. The decrease was due primarily to a 19.9% decrease in profit for the year. Our return on equity decreased by 2.0% to 17.0% for the year ended 31 March 2012 as compared to the prior year, primarily due to an increase in equity resulting from the profit for the year made during the year. Please see "— Discussion of Results of Operations" for further details on our profitability.

Return on assets

For the years ended 31 March 2010, 2011 and 2012, our return on assets was 12.1%, 9.7% and 10.2%, respectively.

Our return on assets decreased from 12.1% for the year ended 31 March 2010 to 9.7% for the year ended 31 March 2011, primarily due to a 19.9% decrease in profit for the year. Our return on assets increased by 0.5% to 10.2% for the year ended 31 March 2012 as compared to the prior year, primarily due to the decrease of property, plant and equipment and available-for-sale financial assets as compared to the prior year, partially offset by a 1.8% decrease in profit for the year. Please see "— Discussion of Results of Operations" for further details on our profitability.

Capital Expenditures

Our capital expenditures consist primarily of purchases of land, buildings including the cost of leasehold improvements, tools and equipment, motor vehicles and construction in progress. Our capital expenditures for the years ended 31 March 2010, 2011 and 2012 were ¥15,374 million, ¥7,630 million and ¥7,998 million (equivalent to approximately HK$751 million), respectively. Our capital expenditures during the Track Record Period were primarily related to the expansion of our pachinko operations.

The following table sets forth our capital expenditures for the periods indicated.

	Year ended 31 March			
	2010	**2011**	**2012**	
	¥	***¥***	***¥***	***HK$***
		(in millions)		
Freehold land	—	225	4	0.4
Buildings including leasehold improvements	1,958	1,107	2,428	228
Tools and equipment	7,746	4,307	4,978	468
Motor vehicles	43	—	10	1
Construction in progress	5,627	1,991	578	54
	15,374	7,630	7,998	751

Capital commitments and contingent liabilities

Capital commitments

Our capital commitments primarily relate to commitments in pachinko hall construction contracts. The following table sets forth the total amount of our capital commitments as at the dates indicated:

	As at 31 March			
	2010	**2011**	**2012**	
	¥	***¥***	***¥***	***HK$***
		(in millions)		
Contracted but not provided for(1)	3,532	883	218	20
Approved but not contracted for(2)	—	—	260	24
	3,532	883	478	44

(1) Contracts were signed but the contracted items have not been delivered as at each date of combined statements of financial position.

(2) Approved by internal budget, but no contract has been signed as at each date of combined statements of financial position.

Operating lease commitments

We lease certain land and buildings under operating leases. The leases typically run for an initial average period of 20 years. We have the option to cancel the leases on payment of a penalty at various stages of the initial lease periods depending on the terms of the specific leases concerned. The following table sets forth our commitments for operating lease payments under non-cancellable operating leases as at the dates indicated:

	As at 31 March			
	2010	2011	2012	
	¥	¥	¥	HK$
		(in millions)		
Within one year	1,631	1,628	1,550	146
In the second to fifth year inclusive	5,600	4,513	3,166	298
Over five years	997	456	248	23
	8,228	6,597	4,964	467

Indebtedness

The following table sets forth our short-term and long-term borrowings and finance lease payables as at the dates indicated:

	As at 31 March				As at 31 May	
	2010	2011	2012		2012	
	¥	¥	¥	HK$[(1)]	¥	HK$[(2)]
			(in millions)			
Borrowings repayable:						
On demand or within one year	26,335	15,439	1,654	155	1,655	164
After one year but within two years	13,378	10,858	17,258	1,622	12,259	1,214
After two years but within five years	13,147	9,661	3,275	308	3,279	325
After five years	1,409	2,059	1,050	99	1,050	104
	54,269	38,017	23,237	2,184	18,243	1,807
Less: Amount due within one year included in current liabilities	(26,335)	(15,439)	(1,654)	(155)	(1,655)	(164)
Amount due after one year	27,934	22,578	21,583	2,029	16,588	1,643
Secured	25,252	38,006	15,331	1,441	15,337	1,519
Unsecured	29,017	11	7,906	743	2,906	288
	54,269	38,017	23,237	2,184	18,243	1,807
Finance lease payables:						
Amount due within one year included in current liabilities	1,932	1,373	1,187	112	1,190	118
Amount due after one year	3,277	3,074	2,331	219	2,133	211
	5,209	4,447	3,518	331	3,323	329

(1) Translated into Hong Kong dollars at the rate of ¥10.64 to HK$1.00, the exchange rate prevailing on 30 March 2012.

(2) Translated into Hong Kong dollars at the rate of ¥10.10 to HK$1.00, the exchange rate prevailing on 31 May 2012.

On 15 September 2011, our subsidiary, Dynam, entered into a loan agreement with a syndicate of lenders that amended a commitment line agreement dated 31 March 2011, which provided for a revolving loan facility in an amount of up to ¥25,000 million (the "Revolving Loan Facility"). The Revolving Loan Facility consists of two loans, and the commitment of the lenders to provide loans under the Revolving Loan Facility is available for a three-year period from the execution date of the original loan agreement. Borrowings under the Revolving Loan Facility bear interest at the rate of 1.0% per annum over the interest rate for the corresponding loan term published by the Japanese Bankers Association for euroyen TIBOR, subject to adjustment from time to time. The loans under the Revolving Loan Facility have a term of one, two or three weeks or one, two, three or six months, subject to adjustment. Loans may not be prepaid without prior written consent of all lenders and the agent for the lenders. The Revolving Loan Facility is guaranteed by DYNAM JAPAN HOLDINGS Co., Ltd. pursuant to a guarantee agreement dated 31 March 2011 as amended (the "Guarantee").

The Revolving Loan Facility and the Guarantee contain certain financial covenants that, among other things, require the borrower and guarantor to maintain specified financial ratios related to net assets, and contain affirmative and negative operating covenants. The borrower is required to maintain net assets at each year end and second quarter end at not less than 75% of the higher of the non-consolidated net assets of the previous settlement term end or the non-consolidated net assets as at 31 March 2011. The guarantor is required to maintain net assets at each year end and second quarter end at not less than 75% of the higher of the non-consolidated net assets of the previous settlement term end or the non-consolidated net assets as at 31 March 2011. Affirmative covenants require each of the borrower and guarantor to:

- maintain permits necessary to conduct its business and continue its business in compliance with applicable laws;
- make no changes in its principal business; and
- refrain from subordinating its payment obligations under the Revolving Loan Facility, except as required by law.

Negative covenants limit the ability of each of the borrower and guarantor to:

- enter into any merger or corporate reconstruction arrangement;
- exchange or transfer its shares;
- establish a trust arrangement; or
- make certain assignments of all or part of its assets to a third party.

The Revolving Loan Facility also includes certain customary events of default. As at 31 May 2012, ¥11,000 million (equivalent to approximately HK$1,089 million) of the Revolving Loan Facility had been drawn down and ¥14,000 million (equivalent to approximately HK$1,386 million) remained available to be drawn down.

We have a number of additional bank borrowings, with both floating and fixed interest rates. As at 31 May 2012, our fixed interest rate bank borrowings bore interest at rates ranging from 2.0% to 2.7% per annum. All of our bank borrowings were denominated in Japanese yen. Our bank borrowings are subject to a number of customary affirmative and negative covenants, as well as financial ratios with which we must comply. Generally the affirmative covenants for these bank borrowings require the borrower to maintain net assets at each year end and second quarter end at not less than 75% of the higher of the non-consolidated net assets of the previous year end or the fiscal year end immediately prior to entering into the relevant agreement. Negative covenants limit our ability to: transfer assets to parties other than the guarantor or wholly owned subsidiary of the guarantor, transfer assets of ¥1,000 million or more, post ordinary losses for two consecutive periods, and enter into reorganisations, mergers, spin-offs, stock swaps and transfers or trusts which may influence fulfilment of our payment obligations under the terms of the loan.

During the Track Record Period and as at the Latest Practicable Date, we have been, and currently are, in compliance with all of the covenants under all of our bank borrowings. Our Finance Department monitors our maintenance of the specified financial ratios and compliance with the other covenants at the end of each fiscal year and second quarter.

As at 31 May 2012, for the purpose of this indebtedness statement, we had total bank borrowings of approximately ¥18,243 million (equivalent to approximately HK$1,807 million), of which the bank borrowings of approximately ¥15,337 million (equivalent to approximately HK$1,519 million) were secured by our property, plant and equipment, other long-term assets and prepayments and other receivables and the remaining bank borrowings of approximately ¥2,906 million (equivalent to approximately HK$288 million) were unsecured. We also had total finance lease payables of approximately ¥3,323 million (equivalent to approximately HK$329 million), of which approximately ¥1,190 million (equivalent to approximately HK$118 million) was to be repaid within one year.

At the close of business on 31 May 2012, we had a total amount of approximately ¥25,000 million (equivalent to approximately HK$2,475 million) of banking facilities available to us, of which approximately ¥14,000 million (equivalent to approximately HK$1,386 million) was unutilised.

Except as indicated above, and apart from intra-group liabilities, normal trade payables and certain other commitments and contingent liabilities as disclosed in this Prospectus, we did not have, as at 31 May 2012, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, acceptance creditors, loans or other similar indebtedness, liabilities or acceptances, pledges, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Since 31 May 2012, there has not been a material adverse change in our indebtedness and contingent liabilities.

In this section, amounts denominated in Hong Kong dollars as at 31 May 2012 are translated at the rate of ¥10.10 to HK$1.00, which was the exchange rate prevailing on 31 May 2012.

Off-Balance Sheet Arrangements

As at the Latest Practicable Date, we have not entered into any off-balance sheet transactions other than the interest rate swap contracts.

Quantitative and Qualitative Disclosures About Market Risk

Foreign currency risk

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

Price risk

Our available-for-sale financial assets and financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Therefore, we are exposed to equity security price risk mainly through our investment in listed equity securities and unlisted convertible bonds. These investments are held from a viewpoint of business strategy, not for short term trading purposes. We will not sell these investments frequently and we periodically review the fair value of these investments as well as the financial condition of investees.

Credit risk

The carrying amount of our bank and cash balances, derivative financial instruments, trade receivables such as commission income from vending machines, and other receivables such as G-prize refundable, and amounts due from related companies included in our statement of financial position represents our maximum exposure to credit risk in relation to our financial assets. We have policies in place to ensure that our third party vending machine operators have appropriate credit histories.

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

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

Due to the above factors, we have no significant concentration of credit risk.

Liquidity risk

Our policy is to regularly monitor our liquidity requirements, our compliance with lending covenants and relationships with our bankers to ensure that we maintain sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

Interest rate risk

Our exposure to interest rate risk arises from bank deposits, bank loans, syndicated loans and amounts due from and to related companies. These deposits and borrowings bear interest at variable rates.

During the Track Record Period, we have used interest rate swaps in order to mitigate our exposure associated with fluctuations in interest rates.

DIVIDEND POLICY

During the Track Record Period we declared and paid dividends in the amount of ¥7,245 million, ¥4,312 million and ¥8,052 million (equivalent to approximately HK$757 million) for the years ended 31 March 2010, 2011 and 2012, respectively.

We intend to distribute dividends on an interim and year-end basis, subject to the availability of Distributable Amount and compliance with applicable laws and regulations in Japan and Hong Kong. Any dividends will be determined by our Board of Directors taking into consideration the interim and final results of our Company. We currently intend to recommend interim and final dividends totalling approximately 45% to 50% of our consolidated profit (calculated in accordance with IFRS) for the six months ending 30 September 2012 and the year ending 31 March 2013, which we expect to declare by November 2012 and June 2013, respectively. For further information, please see "— 2. Japanese Corporation Law — (e) Dividends and distributions" in Appendix III to this Prospectus. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant. There is no assurance that dividends of any amount will be declared or distributed in any year.

Pursuant to the Companies Act and our Articles of Incorporation, through a resolution of the Board of Directors (unless such dividend is proposed to be paid in kind (other than Shares, bonds (including convertible bonds) and share options issued by our Company, which the Companies Act prohibits) without giving Shareholders the right to demand distribution in cash, in which case a special Shareholder resolution is required), we may declare dividends to our Shareholders subject to a limit equal to the Distributable Amount then existing. Pursuant to the Companies Act and the relevant Ordinance of the Ministry of Justice of Japan, the Company's Distributable Amount is calculated based on the retained earnings recorded in the Company's non-consolidated financial statements prepared in accordance with JGAAP (rather than IFRS) with certain adjustments (including the deduction of the book value of any treasury Shares held by the Company). For further information on the Distributable Amount, please see "— 2. Japanese Corporation Law — (e) Dividends and distributions — (i) Restriction on distribution of dividends" in Appendix III. Going forward, Shareholders that are entitled to receive cash dividends (if any) from our Company will have the option of receiving their entitlements in either Japanese yen or Hong Kong dollars, except for CCASS Beneficial Owners, who will receive dividend payments in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable. Scrip dividends in the form of Shares, bonds (including convertible bonds) or share options issued by our Company are prohibited under the Companies Act.

We are required under Japanese law to withhold tax prior to payment of dividends. In general, (i) individual Shareholders interested in less than 3% of the entire issued Shares of our Company who are not Japanese residents; and (ii) corporate Shareholders (established in Japan or elsewhere) are subject to a withholding tax of 7% and 7.147%, respectively, for dividend due and paid on or before 31 December 2012 and 31 December 2013. For further information on Japanese withholding taxes, see "Material Shareholders' Matters under Japanese Law — Dividends — Japanese withholding tax for dividend payments". Shareholders who are either residents in Hong Kong or corporations established in Hong Kong without any permanent establishment in Japan are entitled to a reduced withholding tax rate of not exceeding 10% (or not exceeding 5% for corporate Shareholders interested in 10% or more of the voting Shares of our Company for the six months ending on the record date for dividend distribution) under the Hong Kong-Japan Tax Treaty. See "Material Shareholders' Matters under Japanese Law — Dividends — Japanese withholding tax for dividend payments — The Hong Kong-Japan Tax Treaty" for the application procedures for such reduced withholding tax rate.

DISTRIBUTABLE AMOUNTS

Dividends can be paid out from the Distributable Amount which is determined in accordance with the Companies Act. We had a Distributable Amount of approximately ¥49,801 million (equivalent to approximately HK$4,681 million) as at 31 March 2012.

DIRECTORS' REMUNERATION

No emoluments were paid by us to the Directors during the years ended 31 March 2010 and 2011, because the Director emoluments were borne by Dynam Holdings and not charged to us. This practice was discontinued upon our incorporation in September 2011. Directors' emoluments of ¥48.9 million (equivalent to approximately HK$4.6 million) was paid to the Directors during the year ended 31 March 2012. We expect to incur approximately ¥67.7 million (equivalent to approximately HK$6 million) per annum in emoluments after the Listing.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since 31 March 2012 (being the date to which our latest combined financial information was prepared, as set out in the Accountants' Report in Appendix I to this Prospectus) and up to the date of this Prospectus.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets has been prepared based on the consolidated net tangible assets of the Group as at 31 March 2012, as set out in the Accountants' Report of the Company set forth in Appendix I to this Prospectus. The adjustments are described below.

The pro forma statement of adjusted net tangible assets has been prepared to illustrate the effect of the Global Offering on the combined net tangible assets of the Group attributable to the owners of the Company as at 31 March 2012 as if the Global Offering had taken place on 31 March 2012 assuming the Over-Allotment Option is not exercised. Because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group as at 31 March 2012.

	Audited combined net tangible assets attributable to owners of the Company as at 31 March 2012 *(in millions)*		**Estimated net proceeds from the Global Offering** *(in millions)*		**Unaudited pro forma adjusted combined net tangible assets** *(in millions)*		**Unaudited pro forma adjusted combined net tangible assets** *per Share*	
	¥	*HK$*	*¥*	*HK$*	*¥*	*HK$*	*¥*	*HK$*
Based on an Offer Price of HK$14 per Share	91,985	8,645	16,020	1,506	108,005	10,151	145.4	13.7
Based on an Offer Price of HK$16 per Share	91,985	8,645	18,332	1,723	110,317	10,368	148.5	14.0

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued interests of our properties in Japan as at 30 June 2012 at ¥67,422 million.

For the purpose of this listing of the Shares on the Stock Exchange, our properties in Japan were valued at ¥67,422 million (equivalent to approximately HK$6,552 million) as at 30 June 2012 by DTZ Debenham Tie Leung Limited. There is a revaluation deficit, representing the excess of the carrying value of the properties over the market value, approximately ¥11,734 million (equivalent to approximately HK$1,140 million) of which is not included in our combined financial statements for the year ended 31 March 2012. In accordance with our accounting policy, all properties are stated at cost less accumulated depreciation and impairment except for investment property which is measured at fair value.

Disclosure of the reconciliation of the property interest of our Group and the valuation of such property interests as required under Rule 5.07 of Listing Rules is set out below.

	(in millions)	
	¥	***HK$*[(1)]**
Carrying amount of properties of our Group as at 31 March 2012 as set out in the Accountants' Report in Appendix I to this Prospectus — Investment properties, freehold land and buildings	78,595	7,638
Movements from 1 April 2012 to 30 June 2012 (unaudited)		
Add: Additions during the period	1,842	179
Less: Depreciation during the period	(1,281)	(125)
Carrying amount of properties of our Group as at 30 June 2012	79,156	7,692
Valuation deficit	(11,734)	(1,140)
Valuation of properties as at 30 June 2012	67,422	6,552

(1) Translated in to Hong Kong dollars 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).